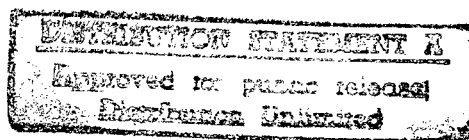


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GENERAL

Socialism Defended as Best Economic Choice

91CM0209A Beijing LIAOWANG [OUTLOOK]
in Chinese No 50, 10 Dec 90 pp 14-15

[Article by Sha Jiansun (3097 0256 1327): "The Economic Disparity Between China and Developed Western Countries"]

[Text] Some people have posed the question: If the socialist system is superior, why doesn't the level of economic development in socialist China compare with that in the Western capitalist countries?

First, this presents the problem of how the comparison is to be made. Lenin said, "This type of comparison must be done properly. This is the minimum requirement. This means making it clear whether or not the historical developments of the countries being compared are comparable." Developed capitalist countries of the West underwent several hundred years of development before their economies reached their present level. Socialist China started several hundred years behind the West. In 1950, the U.S. per capita income was 62.3-fold that of China. How can it be said that China's system is no good unless it eliminates this gap in one fell swoop? Could this kind of argument possibly be scientific or based on facts?

Second, how did China come to be backward? Essentially, it was the result of feudal shackles and imperialist oppression. Is it fair or reasonable to make China's socialist system responsible?

Third, for historical reasons, China lags far behind the developed countries of the West in terms of absolute level of economic development. However, in terms of the pace of development, China is by no means inferior to the West. Between 1951 and 1985, the world average annual growth rate for industrial production was 4.9 percent. That of the developed countries was 4.2 percent, and that of China's from 1951 to 1987 was 11.5 percent. The average annual GNP growth rate between 1979 and 1987 was 9.2 percent for China and 2.3 percent for the United States. Between 1965 and 1980, the increase in agricultural value was 3 percent for China and 1.3 percent for the United States. From 1980 to 1985, it was 9.4 percent for China and 1.8 percent for the United States. Of course, the original base of the Western economies is relatively large, making it difficult to increase their growth rates by very much. However, one point is abundantly clear. Once China implemented socialism, the pace of economic development did not slow down. Instead, it greatly accelerated. The economic gap between China and the Western countries did not widen, it narrowed. China's economic position in the world did not decline, it rose. "From 1949 until the present, steel output and electric energy production rose from 26th place and 25th place to fourth place; coal output from ninth place to first place; crude petroleum from 27th place to fifth place; and grain, cotton, meat, and egg production all rose to first place. In 1960, the

U.S. GNP was 12-fold that of China's. By 1980, the gap had been reduced to ninefold." (GAOXIAO SHEHUI KEXUE [COLLEGE SOCIAL SCIENCES] No. 4, 1990.) When judging China's socialist system, are we not to consider these facts? Undoubtedly, it is necessary to make comparisons with Western countries and, seeing the disparity between our economy and the world's advanced levels, be stimulated into improving ourselves. However, if we attempt to use this argument to decide that China should not implement socialism, that would be illogical. The position would be untenable.

We are of the opinion that, if we are to weigh the pros and cons of socialism with respect to economic development, we have to make our comparisons using countries in similar circumstances. Of the more than 160 countries in the world, only a few are socialist. The remainder are all taking the capitalist road. Of these, only a very few West European and North American countries and Japan, as well as a very few special countries or regions (for example, Asia's "four little tigers") have experienced rapid economic development. The majority of the remaining countries taking the capitalist road remain relatively poor even today. Their circumstances are not as good as China's. When we are discussing capitalism, we cannot just include the United States, Britain, West Germany, and Japan and exclude from our field of vision large numbers of Third World countries taking the capitalist road. We have to decide whether the development of these countries, whose starting points were similar to China's, has been faster and better than China's. For example, take the average annual rate of industrial growth. Between 1951 and 1985, it averaged 5.9 percent for developing countries, and between 1951 and 1987, it averaged 11.5 percent for China, double their rate. China is also in the lead with respect to standard of living. In 1980, the World Bank in an investigation report on China's economy stated that China's "most notable success in the past 30 years has been a huge achievement in bettering the daily lives of the low-income masses compared with what has been done for the same category of people in the other poor countries. The Chinese all have work, their food supply is guaranteed by state rationing and by collective methods and private plots. The vast majority of children not only attend school but receive a rather good education, and the vast majority of the people are able to enjoy basic health care and birth control services." The well-known U.S. economist, Robert Samuelson, in the 10th edition of his book *Economics*, says that, as far as the basic facts about China are concerned, "It furnishes each person with food, clothing, and housing, enables them to maintain their health, and enables the large majority to obtain an education. A billion people are not starving, flocks of people are not sleeping along the side of the road or in the streets, beggars are not seen, and a billion people are not suffering from epidemics. Considered on this basis, China's success exceeds that of any undeveloped country in the world."

To better illustrate the issue, we want to compare China and India. Both are large countries. One was originally a

colony, one a semi-colony. Their circumstances were relatively similar. And, as far as their original economic levels were concerned, India's was at a somewhat higher level than China's. After 30-40 years of following different roads of development, each achieved considerable success. Despite the reverses China suffered during this period from the Great Leap Forward and the Great Cultural Revolution, its success still exceeded that of India's. During the sixties, GNP increased at an average annual rate of 3.4 percent for India and 5.2 percent for China. During the seventies, India's was 3.6 percent and China's 5.8 percent. From 1980 to 1987, India's national income increased at an average annual rate of 4.5 percent, and from 1980 to 1988, China's was 9.9 percent. Looking again at the output of the principle industrial and agricultural products, from 1950 to 1986, China's steel production rose 538 percent compared to India's 41 percent; electric energy production rose 245 percent compared to India's 86.8 percent; petroleum rose 429 percent compared to India's 51 percent; raw coal rose 510 percent compared to India's 130 percent; cotton cloth rose 173 percent compared to India's 59.7 percent; and grain rose 271.7 percent compared to India's 217.7 percent. We also have to recognize that, since India was implementing capitalism, its distribution was extremely unfair. Domestically, more than half of the population has been living in dire poverty, while the rich have been becoming richer and richer. The situation in China has not been like that. (The above data was taken from Chapter 4 of Wu Ninggeng's [1566 1337 5087] *Socialism and China*.)

Of course, in the process of building socialism, we have made mistakes because of our lack of experience. These have caused problems in economic growth during certain decades. However, this certainly was not caused by the socialist system itself but rather by our having violated the laws of socialist economic development. We have corrected these mistakes through reform and opening up to the outside world. By proceeding according to economic laws, we have been able to bring the superiority of socialism into full play. China's economic development will now be even faster and better. The strength of the evidence shows that China's choice of the socialist road was correct.

We would also like to mention another issue. Some people note that Taiwan, which has implemented capitalism, has a much higher per capita income than the Chinese mainland, which has implemented socialism. They would like to know how to explain this.

We have to admit that, after the Kuomintang [KMT] ruling clique fled to Taiwan from the mainland, they adopted a number of measures, such as implementing land reform and their strategy to replace an import industry with an export industry. These indeed had an effect on Taiwan's economic development. However, we have to ask, what were the historical conditions under which Taiwan's economy developed and would the

entire economy of China be able to take the same path as Taiwan? Following are several basic facts that are worth considering.

First, Taiwan's economy developed under very special historical conditions. Above all, when the Japanese were in control, they cruelly oppressed the Taiwan people. To meet the needs of its aggressive expansion abroad, Japan built a base necessary to develop a modern economy. For example, it created an electric power industry; built ports, transport facilities, and agricultural water conservancy projects; and established universal education. After the war, the Japanese handed over to the KMT more than 1,200 enterprises of varying sizes. In addition, when the KMT fled the mainland, it brought a large amount of mainland assets. Of Taiwan's 100 largest group enterprises, the 21 that are from mainland capital hold one-third of the aggregate value of assets. At the same time, when the KMT fled the mainland, it brought vast amounts of gold and silver from the national treasury. From the winter of 1948 until the eve of liberation in 1949, the KMT people removed from the national treasury and funneled through Shanghai alone more than 2.7 million ounces of gold, more than 35 million silver dollars, and a quantity of jewelry and foreign currency impossible to estimate, which they shipped to Taiwan. Furthermore, they were aided and supported by U.S. and Japanese capital. By June 1983, Taiwan had received from the West loans of \$17 billion in "aid," in addition to having received private capital from abroad amounting to \$23 billion. Along with being tied in with the export of capital, they were also involved in various types of technical cooperation. A high-ranking Taiwan official has written, "If it were not for the economic and technical cooperation of the United States, Japan, and other countries, Taiwan's economic development would be at least 30 years behind." We must not forget that Taiwan has an area of only 36,000 square kilometers and a population of less than 20 million. The effect of investing such a concentrated amount of capital, equipment, and technology in a place as small as Taiwan can easily be surmised. If the China mainland, with an area of 9.6 million square kilometers and a population of 1.1 billion, raised such an amount of concentrated capital, equipment, and technology, individual cities and regions could have done the same thing. However, it would have been impossible for the entire mainland to do so. What this means is that the conditions for Taiwan's economic development were quite special. They cannot apply to all of China.

Second, Taiwan has basically an export processing economy. It is characterized by a large volume of imports that are processed or assembled and then exported in large volume. During the initial more than 20-year period from the fifties to the seventies, the economies of developed countries, under the impetus of the new technological revolution, moved rapidly toward technology-intensive and capital-intensive industrial development. As a result, a number of labor-intensive light and textile industries were ceded to such regions

and countries as Taiwan, South Korea, and Singapore. This accounts for the excellent conditions Taiwan had for developing its processing export industry. During this period, the United States entered into two wars of aggression, first in Korea and then in Vietnam. It relied on Japan, South Korea, and Taiwan to supply a great deal of war materiel. This also stimulated the development of Taiwan's economy. However, Taiwan certainly did not establish an independent industrial system and national economy that were complete in range. Ninety percent of Taiwan's industrial products rely on imported raw materials, and 85 percent of its goods must be sold abroad. The Taiwan press has admitted that "this export-processing economy, which is so heavily dependent on sales abroad, is a very weak economic system." To a large extent, it cannot divorce itself from foreign capital. It is, therefore, difficult to consider Taiwan's economy to be an independent, capitalist economy. It would be impossible to imagine all of China taking Taiwan's road to thus become a huge processing factory funded by foreign capital. If this were to happen, the economy not only would not be able to take off, even political independence would be difficult to maintain. This is because the economy itself would not be an independent, fully industrialized, and completely national economic system, since a number of sectors would be relying on foreign countries. Of course, we must introduce the necessary foreign capital and develop certain processing and assembly industries. However, in building our country, it is still important that we rely on our own efforts, on the superiority of socialism, and on the exertions of the people throughout the land.

Third, the Taiwan economy has been formed according to the principles of capitalism. Its control is in the hands of a few capitalists. An article in the 18 April 1988 issue of Taiwan's MIN CHUNG JIH PAO stated, "Big capitalists and families of influential officials, counting at the most 500,000 people, control an extremely large proportion of the wealth. The wealth of these families averages more than 100 million." A considerable portion of Taiwan's wealth is also in the hands of foreign capitalists. In December 1985, Taiwan's "minister of economic affairs" declared, "50 percent of Taiwan's foreign trade is controlled by foreign firms." Under this type of ownership system, income is determined mainly by how much capital is allotted. Thus, a large amount of the wealth falls into the pockets of a small number of people. Is this the example we want to follow? Would the Chinese comply if we were to take this road?

To sum up, the Taiwan example does not prove that all of China should take the capitalist road.

We can see from the above comparisons that China's choice of the socialist road was entirely correct. The future development and progress of China cannot be separated from this socialist base. It is our mission to adhere to the socialist system and, through reform, perfect it, thereby fully bringing into play its superiority in order to promote an even faster development of

China's social productive forces and the overall advancement of its social life. This is the direction in which we must head.

Analysis of Changing U.S.-Soviet Relations

91P30098A Hong Kong TANG TAI
[CONTEMPORARY] in Chinese No 62, 2 Feb 91 pp
42-43

[Article by Niu Du (3662 3685): "Soviet Conservative Forces Gain Ground; U.S.-Soviet Honeymoon Is Over"]

[Text] Changes Have Occurred in the Soviet Union's Domestic Political Situation

New Year's Day 1991 had just passed and as the resignation speech which Soviet Foreign Minister Shevardnadze gave about "the imminent arrival of dictatorship" rang in people's ears, the Soviet Government dispatched conventional troops and KGB units to deal with the three Baltic republics.

Acute and complex racial problems have been caused by expansionist and pro-Russian policies carried out by the tsarist government and former Soviet leaders. However, the burden of resolving these difficult problems has very unfairly fallen on Gorbachev, who is promoting reform and opening up. Gorbachev cannot pass legislation to resolve these problems, nor can he allow the Soviet Union, made up of more than 100 nationalities, to disintegrate. Therefore he has been hesitating and wavering between the choices of words, economic blockades, and armed repression. The result is that, since he came to power, large nationality conflicts have arisen one after another in unbroken succession.

For instance, the highest Soviet authorities decided recently to use force to resolve the problems and check the momentum of the dissolution of the Soviet Union. On the one hand they are taking advantage of world attention being centered on the Persian Gulf region and the major Western countries being afraid of giving undue offense to the Soviet Union as they maintain a "united front" opposing Iraqi President Husayn. On the other hand, the Soviet Union's domestic conservative forces are gradually gaining ground, causing Gorbachev to yield to Army and KGB pressures. The sound of guns in Georgia and Lithuania clearly tells us that the Soviet Union has undergone a big political change domestically.

The U.S.-Soviet "Honeymoon" Is Over

In the past couple of years, the basis for U.S.-Soviet relations going from cold to warm and from confrontation to cooperation has been Gorbachev's move away from the internal oppression and expansionist policies practiced by previous Soviet Communist leaders and his rigorous enforcement of reform. Now the Soviet domestic situation has undergone change; the violent repression of minorities appealing for independence cannot but cast a shadow on U.S.-Soviet relations. As early as last December, during Soviet Foreign Minister

Shevardnadze's final trip to the United States, Secretary of State Baker asked Shevardnadze to pass a message to Gorbachev that the United States was "concerned" about Gorbachev's increasing tendency to rely on the conservative forces of the Army and KGB.

United States Is Dissatisfied With Soviet Repression

After New Year's, when the Soviet Army and the KGB had just started repressing the minorities calling for independence, the United States on the one hand through White House spokesperson Marlin Fitzwater called on the Soviet Union "to stop its intimidation"; and, on the other hand, it floated a rumor that it was going to "reconsider" the U.S.-Soviet summit set for February. Although the United States later explained that the principal cause for "reconsidering" the summit date was the Gulf crisis, the change in the domestic political situation in the Soviet Union had to be an important reason.

On 12 January, after the news was released that the Soviet Army had killed and wounded over 100 people during the occupation of radio and TV stations in the Lithuanian capital of Vilnius, Secretary of State Baker, who was visiting Turkey at the time, said that event caused "unease." Moreover, he announced that "continued cooperation between the Soviet Union and the United States depends on the continuation of reform (in the Soviet Union)." President Bush also immediately made a statement saying that "there is no reason to use force against a peaceful democratic movement," and, if the Soviet authorities continued the repression, "U.S.-Soviet relations will take a turn for the worse." This is the first time in a rather long time that U.S. leaders have made a relatively harsh criticism of Soviet domestic policy. This shows that the "honeymoon" in U.S.-Soviet relations is over.

The End of "New Thinking"

The Soviets were prepared for this. Essentially, Soviet Foreign Minister Shevardnadze's resignation resulted in a change in the Soviet domestic political balance that was advantageous to the conservative forces. Two influential Soviet political analysts, Alexei Izyumov and Andrei Kortunov, said in a U.S. NEWSWEEK article that Shevardnadze's resignation marks the end of the "new thinking chapter" of Soviet foreign policy; along with the restoration of a "normal" foreign policy, diplomats like Shevardnadze who are revolutionaries and romantics are going to pass their responsibilities to the pragmatists. The statements of these two political analysts is tantamount to suggesting the downfall of Soviet foreign policy. U.S.-Soviet relations naturally cannot but be negatively influenced.

U.S.-Soviet Relations Will Cool Off

In recent years, the Soviet Union has changed its policy of confronting the United States—cooperating closely with the United States on reduction of medium- and long-range nuclear weapons in Europe, pulling out of

Afghanistan, promoting the democratization of Europe, reducing conventional armed forces in Central Europe, and most recently in the Persian Gulf crisis—and has put great effort to bring the cold war to a close and bring about detente in East-West relations. But recently there have been clear signals that the Soviet Union is gradually adopting an uncooperative attitude.

On the question of disarmament, the Soviet Union used the well-known, conservative (?Russian Soviet Report) to openly denounce Soviet Foreign Minister Shevardnadze's too large concessions to the United States. In order to "rectify foreign policy errors," the Soviet military transferred 10,000 to 12,000 tanks as well as a large number of armored vehicles and artillery from Eastern Europe east of the Urals, thereby preserving Soviet military forces and the limits on the Negotiations on Conventional Armed Forces in Europe [CFE]. U.S. military reconnaissance satellites discovered that the Soviet Union purposely underestimated numbers of tank and artillery left in Eastern Europe and counted three infantry divisions as Navy (because the Navy has not yet fallen into the scope of the CFE.) As far as reduction of strategic nuclear weapons, the Soviet Union has stubbornly maintained its former stand, refusing to make any important concessions.

The Soviet Stand Toward the Gulf Has Hardened

The United States has already estimated that in the future it will be harder and harder to get Soviet assistance on the Afghanistan and Cambodian problems. The Soviet Union is in the process of making a subtle but important change on how to solve the Gulf crisis. On 10 January, only four days before the UN Security Council deadline for Iraq to withdraw from Kuwait, Gorbachev called Bush to request an international emergency meeting to discuss the Gulf crisis and seek a peaceful solution. The Soviet Union is clearly retreating from its principled stand of supporting the UN Security Council resolutions. Thus, Gorbachev's request necessarily met with Bush's refusal.

U.S.-Soviet Relations Cannot Return to the Cold War Era

Although major changes in the Soviet domestic political situation has led to a cooling off in U.S.-Soviet relations, those relations, which have experienced a "honeymoon" cannot return to the cold war era. In the first place, the reason for this deterioration in U.S.-Soviet relations is not the same as in the past when it was caused by Soviet expansionism, but rather it now arises from Soviet authorities' incorrect domestic policies. The Soviet Union has not directly gone against major U.S. interests, so the United States will naturally not have an overly strong reaction. Second, although Soviet conservative forces have gained ground recently, they are still being restricted by democratic forces. When the news of the Soviet Army's armed repression in Lithuania reached Moscow, there were immediate repercussions in the USSR Congress of People's Deputies, and the Army and

KGB came in for sharp censure from many of the deputies. Therefore, Soviet conservative forces cannot stray too far off the mark. Third, Soviet conservative forces are well aware that the Soviet Union is not as strong as in the past and that it is heavily reliant on Western support. If there is a total break with the West, it would be hard to sustain the Soviet economy. This is one of the major reasons that the Soviet military no longer stresses "foreign threats" when asking to maintain a large military budget, but merely reiterates "domestic needs." The military is not willing to offend the West either. Fourth, Gorbachev's prestige is sliding domestically; Western political support is also of utmost importance in maintaining his position. Therefore, in dealing with racial problems Gorbachev might "stop before going too far." Fifth, U.S. leaders cherish the long-cultivated friendship with Gorbachev and sympathize with Gorbachev's domestic difficulties; so, even after Soviet troops opened fire, they were relatively restrained in their criticism of the Soviet Union. For example, in his speech, Bush did not hold Gorbachev directly responsible, nor did he not hold him responsible. U.S. leaders used different tactics with Gorbachev and with the Soviet Army, giving Gorbachev some leeway.

The United States is the sole surviving superpower at the conclusion of the cold war. The Soviet Union has been transformed into a deformed "giant with clay feet." The economy is in a weak position, but it still has the world's biggest military arsenal. A major change in U.S.-Soviet relations must certainly have an effect on all other international relations, such as U.S.-European, U.S.-Middle Eastern, and Soviet-Middle Eastern relations.

Problems Viewed in International Debt Policy

HK2702132191 Beijing RENMIN RIBAO in Chinese
18 Feb 91 p 7

[Article by Liu Guangxi (0491 0342 3305): "New and Old Problems of International Debt Strategy"]

[Text] After developing countries landed in a full-scale debt crisis in early 1982, in order to protect the interests of Western commercial banks and international multi-lateral and bilateral financial institutions, and to lighten the debt burden on the developing countries, which were mainly Latin American and African debtor nations, the Western financial community consisting mainly of the creditor nations and the Western financial sector, put forward a series of proposals, programs, and plans to solve the debt crisis. Among these were annual rearrangement of debts, the agreement on rearrangement of accumulated debts, the Paris Club debt alleviation program, Baker's growth restoration scheme, the policy and structural readjustment of international financial institutions, Brady's initiative giving consideration to both economic growth and finance, and the debt capitalization program. However, none of the set targets have been fulfilled since implementation of this debt strategy. The major debtor nations and poor debtor nations have not only failed to achieve their expected growth rates and

targets for foreign exchange earnings from exports, but their debt burden has also gotten heavier and heavier. Up to now, the total debt of all developing countries has reached \$1,320 billion, more than twice as much as the combined annual export income of these countries. At the same time, there is the strange phenomenon of a massive net return of funds. This has exposed increasingly clearly the limitations of the current international debt strategy.

First, the goal and approach of the debt strategy are contradictory. On the one hand, Western financial institutions have urged debtor nations who are short of funds to readjust their macroeconomic and trade structures, exerting unreasonable pressure on the outflow of funds. On the other hand, the funds needed to enforce this strategy are not available. The amount of funds available is much less than the extra funds (\$2 billion) that must be provided by Western commercial banks as prescribed by Baker's plan, which demands that developing countries launch a comprehensive structural readjustment. As there is a wide gap between the demand and supply of funds, the plan can hardly be implemented. In March 1989, U.S. Treasury Secretary Brady put forward a proposal to "ensure that economic structural readjustment would be carried out by major debtor nations on the condition that commercial banks extend more loans." His proposal was acclaimed as making great progress in the effort to solve the debt crisis. However, doubting the debtor nations' ability to pay in the future, and in view of the change in the domestic monetary policies of Western countries, commercial banks have hesitated to grant new loans. In consequence, the Brady proposal has lost its basis for implementation and has landed in dire straits.

Second, implementation of the debt strategy has been overdependent on the role of the latent market in developing countries, that is, on the measures in respect to the supply side, while other economic variables, such as the aggregate demand, investment orientation, conditions for admission to the export market, and the effective use of resources, have not been fully considered.

Third, the effect of the practice of capitalizing debts is limited. This measure was jointly designed, and has been implemented, by the major debtor nations (Mexico, Brazil, Argentina, and the Philippines) and Western commercial banks since 1986. Although some results have been scored in Mexico and some other Latin American countries since this measure was introduced, the value involved is small and the results are insignificant. In the past few years, many Western commercial banks, in view of their interest losses as creditors, did not want to convert more debt into capital. In addition, the amount of debt to be converted is subject to restrictions due to the debtor nations' economic structure and the scale of utilization of foreign capital in these nations. The amount of debt capitalized so far is negligible, accounting for only 2 percent of the total debts of the five countries of Mexico, Argentina, Brazil, Chile, and the Philippines. What is more, the capitalization of debts

will disturb implementation of the debtor nations' financial and monetary policies, leading to an increase in the issuance of money and inflation and a deterioration of the domestic monetary environment. This will add to their debt burden.

Fourth, there are differences of opinion among Western countries about the implementation procedures for the debt strategy. The European Community members headed by France maintain that the focus of the implementation of the debt strategy should be on an early solution to debt problems involving some poor debtor nations, especially the French- and English-speaking African nations. The United States holds that the priority task is to solve the debt problems of the major debtor nations, mostly Latin American countries. This contradiction, arising from the different geopolitical and economic interests of France and the United States, turned out to be a most acute one during the Houston Group of Seven Summit held in July 1990, hindering full-scale implementation of the current debt strategy and obstructing the presentation of feasible latent solutions to the debt crisis.

Finally, one fatal weakness of the current international debt strategy is that Western financial institutions and senior financial officials have overlooked the importance of the stability of their own economies to the implementation of the strategy. In other words, they have failed to put the debt strategy into the context of the world's economic development and make an overall consideration. In consequence, the debt strategy is separated from the West's economic development and the precondition for the overall solution to the debt crisis is nullified.

At present, some recent changes in the political and economic domains worldwide have presented new problems in implementation of the debt strategy: 1) The outbreak of the Gulf war has resulted in fluctuations in oil prices and an upsurge in feelings against the West that will lead to a decrease in some Arab OPEC countries' U.S. dollar deposits in Western commercial banks. This will not only inhibit the recovery of the economy and market demand in the West and lead to turbulence in the international financial market, but will also result in an increase in the costs of oil imports to non-oil-producing debtor nations. This will produce a decline in oil exports, a decrease in turnover of oil dollars, a deterioration in trade conditions, and an aggravation of the imbalance in international payments. 2) Because the "Uruguay Round" of talks ended in deadlock, developing countries could not benefit from this round of the multilateral negotiations. Their export capability is still conditional on their large Western trade partners' economic and trade policies and is affected by various nontariff barriers set up by these Western countries, and it will be still more difficult to effectively implement this year and for a few years to come the plan of "boosting economic growth through exports and alleviating the debt pressure" as a part of the debt strategy. 3) Recently, major banks in the United States have landed in a financial

predicament due to excessive bad debts and the tide of enterprise mergers through acquisition of loans. A drastic increase in the amount of "capital converted into debts" has been recorded in large enterprises' financial accounts. All this has caused interest rates to remain high and has rendered implementation of the current debt strategy more difficult.

Nowadays, regional economic forces are rising, the tendency toward regional economic integration is gaining ground, and international cooperation in production and investment is developing daily worldwide. Such being the case, the degree of interdependence in the world economy has increased unprecedentedly and the content of international trade is expanding rapidly. If aggravation of the debt crisis is not stopped, it will inevitably seriously hamper developing countries' economic progress, disrupt the normal operation of the international financial and monetary system, weaken the coordinating role of the existing multilateral trade system, and thus affect the steady development of the world's economy. For this reason, how to make constructive efforts on the existing basis in the 1990's, and how to formulate a comprehensive, practical, and feasible strategy to solve the international debt crisis through the enhancement of prior coordination in worldwide macroeconomic and trade policy will still be a problem that badly needs to be solved by the Western financial community and the many debtor nations.

'Roundup' on Gulf War Cease-Fire, Reaction

*OW2802081391 Beijing XINHUA in English
0611 GMT 28 Feb 91*

[*"XINHUA Gulf Roundup at 0600 GMT: Bush Declares Suspension of Gulf War (by Zhang Yan)"—XINHUA headline*]

[Text] Beijing, February 28 (XINHUA)—U.S. President George Bush declared on Wednesday night that offensive combat operation by allied forces would be suspended at 0500 GMT Thursday.

Bush said in his televised speech that "at midnight tonight, Eastern Standard Time, exactly 100 hours since the beginning of offensive ground operations, and six weeks since Operation Desert Storm began, all U.S. and coalition forces will suspend offensive combat operations."

He said the suspension of allied attacks on Iraqi troops was contingent on the cessation of hostilities against the allies and an end to Scud missile attacks.

But a permanent cease-fire would depend on Iraq complying fully with all relevant United Nations resolutions, including rescinding its annexation of Kuwait and agreeing to pay war reparations. Iraq must also free Kuwaiti detainees and release the remains of the allied dead, the President added.

If Iraq did not agree to terms for the ceasefire, "coalition forces will be free to resume military operations," Bush said.

And Secretary of State James Baker would travel to the Middle East next week to begin peace talks, said the President.

Shortly after Bush's address, Iraq submitted to the U.N. Security Council the third letter accepting unconditionally all the 12 U.N. resolutions related to the Gulf crisis.

However, Baghdad radio said that Iraq would not bow its head to anyone and was "as sharp as the edge of the sword." It is still not known whether this was a reaction to Bush's speech.

Meanwhile, U.S. defense officials said that the 42-day-old Gulf war against Iraq suspended at midnight already, bringing to a close an air, sea and land campaign that crushed Iraq's war machine.

France also announced a halt in the hostilities in the Gulf soon after President Bush declared a suspension of Gulf combat operations.

A statement issued by the President Office said that "the political and military terms to a cease-fire are being examined even now within the framework of the United Nations Security Council."

The Japanese Government Thursday welcomed U.S. President George Bush's announcement on suspension of combat operations in the Gulf war.

Japanese Prime Minister Toshiki Kaifu told reporters that "I am pleased with President Bush's cease-fire announcement," and "I hope Iraq would accept the cease-fire unconditionally."

In Washington, British Foreign Minister Douglas Hurd held talks with President Bush and Secretary of State James Baker on the future of the Middle East after the Gulf war.

After a 40-minute meeting with Bush at the White House, Hurd said "it is perfectly clear that neither the United States nor Britain want to keep forces either in Iraq or in the region generally longer than is necessary for the security of the region."

Hurd hoped that Arab states, Israel and the Palestinians think constructively about ways in which they can prepare for a solution for their conflict.

Baker and Hurd agreed that after the current fighting ends, some sort of an international arms embargo on Iraq should go on if the Iraq's current regime remains.

Baker said that the economic sanctions against Iraq would also depend on the nature of the Iraqi future regime.

But Hurd said that the sanctions may well be linked with the payment by Iraqi compensation for the war loss

because the oil revenue is obviously one of the main means of Iraq for compensation.

UNITED STATES

Characteristics of U.S. Recession Viewed

HK2802023391 Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 3, 1 Feb 91 pp 24, 25

[Article by Zhen Bingxi (3914 3521 4406): "U.S. Economic Recession in Perspective"; first paragraph is SHIJIE ZHISHI introduction]

[Text] The current recession has been particularly clear in the realty, property, and construction sectors, plunging the banking sector, which for the last 10 years has glutted the realtors and property developers with bank loans, into difficulty, squeezing industrial, commercial, and personal credit, and thereby shrinking production scale and personal consumption.

With the start of the new year U.S. President Bush admitted that some U.S. sectors are in recession, and Boskin, chairman of the Council of Economic Advisers, also believed that the U.S. economy has probably entered the ninth postwar recession.

Different From the Past

The U.S. Bureau of Economic Analysis determines the start of a recession with the help of industrial production indicators. U.S. industrial production indicators have fallen continuously over the last few months, with the November drop of 1.7 percent the highest since December 1982. Another indicator of the recession has been growing unemployment, with the current unemployment rate surging by more than 200,000 a month and expected to top 8 million, that is 7 percent, by this spring. Moreover, the number of bankrupt companies has increased dramatically, with as many as 1,300 a week on average declaring bankruptcy since last August. The current recession also possesses the following characteristics:

First, property, realty, and construction sectors were the first to plunge into recession. In previous recessions the U.S. construction industry was hit almost at the same time as other industrial departments, but this time it was hit earlier than the manufacturing industry. For nine months in succession the construction work rate dropped. The unemployment rate in the construction industry has been higher than the average unemployment rate in the rest of U.S. industry.

Second, service sectors, particularly financial ones, have been hit harder than the rest. Even large banks that normally enjoy good business, like Chase Manhattan, have cut down on business and laid people off, and the bankruptcy of the New England Banking Corporation, ranked as one of the 10 largest U.S. banks, has only

increased people's sense of crisis. Financial and insurance companies, advertising agencies, accounting firms, retailers and airlines are all firing staff.

Third, the current U.S. recession occurred earlier than in other Western countries. Of the eight previous U.S. recessions, six occurred simultaneously with those in other advanced countries. At present there is recession in the United States, Canada, and Britain, but not in the remaining four great Western nations. On the contrary, Germany and Japan have maintained the momentum of growth. The OECD recently estimated that Germany's and Japan's economic growth rates this year, though lower than last year, would still reach respectively 3 and 4 percent.

The Causes Are Complicated

The current U.S. recession resulted from an intensified contradiction of cyclical reproduction. The U.S. economy revived in the 1980's and problems again started growing. The U.S. economic growth rate in 1988 stood at 4.5 percent. The overheated economy drove production capacity to its limit and increased the pressure of inflation. To ease the overheated economy and curb inflation, the Federal Reserve Board started placing strict controls on the money supply late that year and in 1989 raised bank rates several times, with the prime rate once touching 11.5 percent. As a result business investment was scaled down, profits fell, and the production growth rate dropped.

Meanwhile, the early recession in the realty and property sectors caused banks to cut back loans and dampened industrial, commercial, and business investment and production. Over the last 10 years, on the strength of the speculation-based prosperity in the construction industry, banks have given unduly large credit to the realty and property sectors, which resulted in a huge abundance of high-class apartments and office buildings, with about one-third of the new buildings late last year remaining empty. Bad realty and property debts swelled, seriously affecting banks which had been creditors to the realty and property industries, and resulting in a savings and loans crisis. When banks found themselves in difficulty, they all cut back industrial, commercial, and personal loans. Between November 1989 and November 1990, industrial and commercial loans issued by all commercial banks were up by a mere 0.2 percent against the 7 percent rise in the previous year. Significant cutbacks in industrial and commercial loans forced industrial and commercial enterprises to cut investment and production scales and curbed individual consumption and expenditure, creating a great impact on all other economic activity.

The current recession also resulted from the excessive borrowing of the 1980's. In the 1980's the U.S. Government raised loans to make up deficits, firms operated in debt, and individuals spent on credit. The situation was quite serious. By mid-1990 U.S. public and private debt

amounted to \$12,800 billion, 2.4 times the GNP. Federal debt had topped \$3,000 billion, with annual interest of more than \$150 billion. To pay bond interest, the government competed for capital on the money market with private business, causing rises in interest rates and affecting business investment and production. Burdened with a huge national debt, the government found it difficult to stimulate the economy with expansionary financial policies. U.S. household debts amounted to about \$3,600 billion, with many families reeling under heavy debts and deprived of any purchasing power. In sum, the debt problem has curtailed U.S. production and consumption and made economic activity sluggish.

The Gulf crisis and rising oil prices have also played a role in the current recession. Imported oil accounts for 50 percent of U.S. oil consumption. When the Gulf crisis erupted, oil prices climbed rapidly, with an estimated increase of \$10 per barrel. As a result, annual U.S. consumption costs rose 2 percent, the economic growth rate fell 1 percent, and import expenditures increased by \$30 billion. Under the pressure of high oil prices and inflation, the Federal Reserve Board's ability to relax the money supply to stimulate economic activity will be restricted.

Two Analyses

Most people believe that the current recession will be "moderate and short" and will not last longer than three quarters, with quarterly GNP down by 1 to 1.5 percentage points. The following are the bases of their argument:

1. Interest rates are dropping. Late last year the Federal Reserve Board cut the discount rate from 7 to 6.5 percent. Early this year, large banks such as the First National City Bank and Chase Manhattan cut the prime rate by between 0.5 and 9.5 percent.
2. Exports remain relatively strong. Exports in the first 10 months of last year increased by 7 percent. Because of the continued weak U.S. dollar exchange rate and the relatively sound economic state of the major U.S. trading partners—Japan, Germany, Mexico, and the Asian-Pacific countries—American products are still in relatively great demand and U.S. exports will enjoy continued growth. This means that recession in the manufacturing industry will not be too serious.
3. No big increases in stocks. The previous recessions all began with great inventory backlogs. But inventories in the manufacturing industry have not increased significantly either before or during the recession. Moreover most businesses have adopted the "real-time stock management" method, holding down stocks at a lower level.
4. Economic conditions are better than those during the last recession. For example, current inflation is 6 percent (the last recession saw double-digit inflation), the prime rate is 9.5 percent and the discount rate 6.5 percent (respectively, 20 and 14 percent last time). Without these

conditions, the Federal Reserve Board would not have had the necessary elbow room to relax the money supply.

However, other experts believe that the current recession will be "long and serious," and probably as bad as the 1973-75 and 1981-82 recessions. Their main reasons are:

1. Huge budget deficits. The Congressional Budget Office estimated that the 1991-92 financial budget deficit will exceed \$300 billion. Faced with such an enormous budget deficit, the U.S. Government will find it hard to adopt liberal financial policies to stimulate the economy as it did in the early 1980's.

2. Smaller incoming foreign capital flows. The currently growing demand for capital within Japan and Germany will result in a grimmer capital environment for the United States. Last year, countries like Japan even started to move capital away from the United States. This will have an impact on the U.S. economy.

3. The Federal Reserve Board is not likely to cut interest rates to any significant extent. Otherwise it would increase the pressure of inflation and speed up the outflow of foreign capital.

4. The banking sector is facing the greatest difficulty since the Great Depression of the 1930's. If a crisis erupts in the banking sector simultaneously with the domestic debt crisis and economic recession, the consequences will be dire.

Other economists believe that the U.S. recession may trigger a global recession. A report by the International Business Cycle Research Center of Columbia University showed that, of the 11 developed countries surveyed, nine saw their leading economic indicators either stagnant or falling, and this signifies the arrival of an international recession. As the U.S. recession deepens and the global capital shortage worsens, the possibility of the currently slower global economic growth turning into a global recession cannot be eliminated. If the Gulf war proves to be a sustained large-scale war, the U.S. recession will become worse and longer, and it will be hard to avoid a world economic recession.

Overview of U.S. Postwar Economic Recessions

Sequence	Duration (months)	Fall in Real GNP (%)	Fall in Industrial Output (%)	No of Firms Closed	Highest Unemployment Rate (%)	Rise, Fall in Consumer Price Index
First (Aug 1948-Oct 1949)	15	1.5	10.1	9,928	7.9	-2.7
Second (Sep 1953-Apr 1954)	8	3.2	9.1	7,024	6.1	-0.4
Third (Mar 1957-Apr 1958)	14	3.0	13.5	16,915	7.5	+4.2
Fourth (Feb 1960-Feb 1961)	13	0.9	8.6	17,117	7.1	+1.6
Fifth (Oct 1969-Nov 1970)	14	0.8	8.1	12,201	6.0	+6.6
Sixth (Dec 1973-Mar 1975)	16	4.5	14.8	14,998	9.2	+15.3
Seventh ¹ (Feb 1980-Nov 1982)	34	3	11.8	24,900 ²	10.7	+13.5 ³

1. Another version divides the seventh into two. That is, the seventh occurred in February-July 1980, and the eighth from August 1981 to November 1982.

2. This is the figure for 1982 only.

3. This was the highest price index level in the recession.

SOVIET UNION

Gorbachev Warns Against 'Forcible Seizure of Power'

OW2702024991 Beijing XINHUA in English
0211 GMT 27 Feb 91

[Text] Moscow, February 26 (XINHUA)—President Mikhail Gorbachev today warned the opposition not to attempt a "forcible seizure of power, which would almost inevitably be followed by a civil war," according to the Soviet TASS news agency.

The president, while meeting with intellectuals in Belorussia's capital city of Minsk, strongly criticised the country's opposition forces for "having one aim in common, to weaken and, if possible, to dismantle the union."

He said that political struggle in the country "became particularly fierce when perestroika approached its decisive phase; the redistribution of power and property on a democratic basis."

"Recently the so-called democrats have embarked on a frankly anti-communist road," Gorbachev said, adding

that they "say they are left-wing" but in fact "they are typical right-wing opposition."

Gorbachev condemned the attempts by opposition to instigate people to force a step down of the Soviet president in defiance of legal procedures through the Soviet parliament.

He categorically refuted the allegation that the Soviet leadership would soon replace perestroika with "dictatorship" in the country.

NORTHEAST ASIA

DPRK Seeks Stronger Ties to Japan

OW2702171391 Beijing XINHUA in English
1142 GMT 27 Feb 91

[Text] Tokyo, February 27 (XINHUA)—The Democratic People's Republic of Korea (DPRK) hopes to deepen its relations with Japan in the spirit of equality and reciprocity after the normalization of diplomatic ties between the two countries.

This was stated by Kim Yong-sun, secretary of the Central Committee of the Workers' Party of Korea (WPK) before the departure of a WPK delegation led by him from Tokyo for home after an eight-day visit to Japan.

Kim Yong-sun told reporters that he has received a strong impression that Japan hopes to improve relations with the DPRK.

He said that he has become convinced, through discussions with representatives of Japanese political parties and civic groups and ordinary Japanese people, that they are looking forward to an improvement of bilateral relations between Pyongyang and Tokyo.

Japan and the DPRK held their first round of normalization talks in Pyongyang last January and plan to hold the second round of talks in Tokyo on March 11.

Kim Yong-sun said that it is also imperative for the DPRK and the United States to hold talks to deepen mutual understanding and to pave the way for peace on the Korean peninsula.

He accused Washington of conducting the "Team Spirit 91" military exercise with South Korea, which is currently under way and is already heightening tension on the peninsula.

Referring to the bid of the two parts of Korea to join the United Nations, Kim said that the DPRK has not changed its stance on the issue, namely, that the two sides should share one seat in the world organization.

SOUTHEAST ASIA/PACIFIC

Sihanouk Criticizes Phnom Penh Election Plans

OW2502141691 Beijing XINHUA in English
1311 GMT 25 Feb 91

[Text] Beijing, February 25 (XINHUA)—Norodom Sihanouk, president of Cambodia, said in a statement issued here today that the Phnom Penh regime has no right to hold a general election in Cambodia.

Sihanouk said that the present Phnom Penh regime was not elected by the Cambodian people, but propped up by Vietnam. Therefore, the general election held by the regime can only reflect the wishes of Hanoi.

He pointed out that in order to make the general election effective, genuine peace and independence—the kind which was realized within the boundary of Cambodia in 1969—should be restored before the general election, and the United Nations should be vested with the authority to organize and supervise the general election in accordance with the peace plan drawn up by the five permanent members of the UN Security Council and the UN secretary general.

Sihanouk stressed that if the above-said peace plan fails to be implemented among the four parties of Cambodia, the National Government of Cambodia and the National Cambodian Resistance will not participate in this illegal election, nor will they recognize its outcome.

NEAR EAST/SOUTH ASIA

Social Turmoil Threatens New Indian Government

91CM0193A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 23, 1 Dec 90 pp 21-22

[Article by Dong Manyuan (5516 3355 6678): "V.P. Singh Steps Down, Chandra Shekhar Assumes Power"]

[Text] Social turmoil arising from "government jobs quotas" and the religious strife over a Muslim mosque finally toppled the government of V.P. Singh. On 7 November, the lower house of the Indian Parliament passed a motion of no-confidence against V.P. Singh by an overwhelming majority of 346 votes. Immediately after the results of the vote were announced, V.P. Singh handed in his resignation to President Ramaswamy Venkataraman, ending India's first coalition government just 341 days after it took office.

In accordance with the Constitution, President Ramaswamy Venkataraman the next day asked the Congress (I) Party, the largest party in Parliament, to form a cabinet but was rebuffed. He then turned to the third-largest party, the Janata Dal Party, which refused to form a "short-lived cabinet" but would like to see a general election called soon. It was then that Chandra Shekhar, who three days earlier had led a group of 61 members of Parliament to split from their party, the

Janata Dal Party, asked President Ramaswamy Venkataraman for permission to form a cabinet after meeting with Rajiv Gandhi, chairman of the Congress (I) Party. Shekhar's group had only 61 votes in the lower house, but, with support from 195 members from the Congress (I) Party as well as other members, he controlled a total of 280 votes, giving him a majority in the 525-member house and hence the right to form a cabinet. President Ramaswamy Venkataraman immediately granted his request, thereby ending for now the country's government crisis.

On the surface, the downfall of V.P. Singh's government after just a little over 11 months was the result of social turmoil caused by sectarian strife as well as intraparty divisions. At a deeper level, however, it was the inevitable outcome of the intensification of all sorts of conflicts within Indian society. The government of V.P. Singh, it should be said, made a huge effort to bring stability to the nation in its 11 months in power, an effort that nonetheless seemed pathetically inadequate in the face of overwhelming religious and political forces. There are three aspects to it:

1. Weak political base. The Janata Dal Party captured only 142 seats in the 525-member lower house in the general election last year and cobbled together a majority only with the support of 88 members from the Bharatiya Janata Party and 51 members from the leftist alliance. Yet the Janata Dal Party and the leftist groups had different political viewpoints and the government found it hard to run the country. There was always someone ready to revolt at the slightest move by the government. In a bid to win the support of the poor from his political rivals, Singh announced last August his acceptance of the "Mandal [Commission] report," which successive governments had not dared to touch, and the reservation of 50 percent of government jobs and employment opportunities in public enterprises for members of the lower castes, instead of the original 27 percent. This move aroused bitter resentment among the upper castes and intellectuals. A wave of protest swept the nation. Students boycotted classes day after day and some even burned themselves to death to protest. The Congress (I) Party and the Bharatiya Janata Party added fuel to the flames. The conduct of the Bharatiya Janata Party undermined the political base V. P. Singh needed to conduct the normal business of government. Caught in the middle of a variety of forces, Singh tried very hard to exploit all sides but ended up lurching from crisis to crisis with scarcely a moment of peace. What finally made the Bharatiya Janata Party break with the government was the dispute over the Rama Janmabhoomi-Babri Mosque, the seeds of which were sown back in the days when the Congress (I) Party was in power. The Bharatiya Janata Party withdrew its parliamentary support, forcing V.P. Singh to step down.

2. Endless intraparty disputes. The Janata Dal Party was founded in Bangalore on 11 October 1988, a coalition of the Chandra Shekhar faction from the Bharatiya Janata Party, the Lok Dal Party of Devi Lal, and the People's

Front of V.P. Singh. After the general election last year, the Janata Dal Party formed the National Front with the Dravida Munnetra Kazhagam, the Telugu Desam, the Asom Gana Parishad, and socialist members of the Congress Party and formed a government. While in opposition, the various groups in the Front managed to stick together to bring down the Congress (I) Party. As the ruling party, however, they concerned themselves only with expanding their own influence and divvying up lucrative government jobs, ultimately causing the party to break up.

3. Irreconcilable sectarian conflicts. In April 1987, the World Hindu Council, with the backing of the Bharatiya Janata Party, proposed the construction of a Rama temple in Ayodhya (birthplace of the god Rama in Hindu legend) in northern India. On the site is a Muslim mosque, a Muslim shrine. Rama is one of the three major gods in Hinduism and Ayodhya a Hindu shrine. After the Muslim Mogul dynasty conquered India in the 16th century, it built the Babri Mosque in Ayodhya. In the years that followed, Hindus and Muslims have battled numerous times over this shrine; more than 1,000 people have reportedly been killed in bloody clashes. Before the general election last year, the World Hindu Council, with backing from the Bharatiya Janata Party, called on every village in India to contribute one brick inscribed with the word "Rama" and hold a brick ceremony across the country, touching off large-scale sectarian fighting. The Congress (I) Party at first tried to accommodate the Hindu followers, but was later compelled to declare a state of emergency, infuriating both Hindus and Muslims. During the election, the National Front pledged to "handle" the issue "properly" and succeeded in sending the Congress (I) Party packing. Now, however, the Bharatiya Janata Party again used the dispute over the mosque to fan the flames of Hindu-Muslim conflict. On 19 October, Lal Krishan Advani, chairman of the party, personally led a procession in a converted "chariot-like" vehicle in an attempt to rally Hindus all over India and called on them to march on Ayodhya. To prevent sectarian strife from spreading, the government sent 250,000 troops to block the Hindus from converging on Ayodhya and arrested Advani on 23 October. The same day the Bharatiya Janata Party announced that it was withdrawing support from V.P. Singh in Parliament, thus bringing about the collapse of the coalition government.

Although the Bharatiya Janata Party and Chandra Shekhar have gotten rid of Singh, what Shekhar, who had long proclaimed himself "prime-minister-in-waiting," inherited was a terrible mess. Commentators think that his political base is even more fragile than that of V.P. Singh. The Indian press believes that the Congress (I) Party refused to form a cabinet because it thought the timing was not right. Once conditions are ripe, the press reckons, the party will withdraw its support for Shekhar and make itself the ruling party. Thus the prospects for Chandra Shekhar are not promising. Shekhar, 63, was a "staunch socialist" in his younger days and later became

a member of the "Young Turks" of the Congress (I) Party. He was arrested in 1975 for opposing Indira Gandhi's declaration of martial law. Released in 1977, he became chairman of the old Janata Party and was elected to Parliament in the general election last year. Despite his 40-plus years in politics, he has never held a major government position and lacks administrative experience. His choice of Devi Lal as deputy prime minister has further diminished the prestige of the new government. Sectarian strife, caste conflicts, the beating the Indian economy has taken from the crisis in the Persian Gulf, Punjab, Kashmir, Assam, inflation, budget deficit, trade deficit, unemployment... these are the thorny issues Shekhar is confronting. In an interview with reporters after coming into power, Shekhar said he would modify his predecessor's "public jobs quotas" plan, which had touched off a political fire storm, practice strict austerity in economic matters, and continue the "good neighbor" policy of the previous administration. He also acknowledged that the "present situation is unstable."

Hurd Calls Gulf Postwar Security 'Complicated'

*OW2702140691 Beijing XINHUA in English
1314 GMT 27 Feb 91*

[Text] London, February 27 (XINHUA)—British Foreign Secretary Douglas Hurd said today that bringing post-war security to the Gulf was a "very complicated business."

Speaking at London's Heathrow Airport before leaving for Washington, Hurd said, "I wouldn't want people to feel that making the Middle East a sensible, orderly, peaceful place is going to be at all easy."

Hurd, who cut short a visit to Portugal today, is going to Washington for talks with U.S. Secretary of State James Baker on the aftermath of the Gulf war.

He said it was "not our business who governs Iraq," but "arrangement for the future have to be rooted in the area."

"We can't work out a British plan or an American plan or a European plan, but equally we have got to be ready to stimulate ideas and help where we can," he added.

President George Bush, however, left little doubt that an Allied objective is to end President Saddam's 12-year rule in Iraq.

Speculation on Middle East After Cease-Fire

*HK2802091291 Hong Kong HSIN WAN PAO
in Chinese 28 Feb 91 p 1*

["New Talk" column: "New Situation in the Middle East After the Cease-Fire"]

[Text] Finally, the Gulf war is leaning toward a cease-fire. U.S. President Bush stated this last night (Hong

Kong time 1000 this morning). The time of the cease-fire is 0500 GMT on Thursday, that is, 1300 Hong Kong time.

A cease-fire does not mean an end to the war. Moreover, there are conditions for the cease-fire as well as for an end to the war. The conditions for a cease-fire include Iraqi troops not taking any hostile actions against the allied forces or launching any Scud missiles. The conditions for ending the war include Iraq having to release all prisoners of war of the allied forces and to disclose the location of mines.

Bush called on Iraq to designate military commanders to meet within 48 hours with their coalition counterparts. This remark sounds something like dealing with surrender although it was not clearly said so in words. Now we still have to see how Iraq responds.

UN Security Council Resolution 660 demands that Iraq withdraw its troops from Kuwait and Kuwait to resume its sovereignty. However, facts show that the U.S. operation's real objective includes the following three points: First, recover Kuwait; second, destroy Iraq's war machine, particularly the 150,000-strong Republican Guard; and third, overthrow the Saddam regime. The United States also overtly and covertly indicated that Saddam will be tried as a war criminal.

In the cease-fire statement, Bush clearly mentioned the first two points: Kuwait is liberated and Iraq's Army is defeated. However, the question of Saddam's destiny was not touched on.

Bush will send Secretary of State Baker to the Middle East next week to start peace consultations. Naturally, how to deal with postwar Iraq will be on the main agenda. The question is quite clear: Although the United States has militarily knocked out Iraq's "military strength," it eventually decided not to further advance toward Baghdad to capture Saddam. Obviously, the United States had to take political factors into account.

The United States must consider the Arab people's views on the Gulf war because a number of them believe that Saddam is a new national hero of the Arab people because he dared fight the allied forces of 28 nations and launched Scud missiles to challenge Israel. The United States must also consider recent international criticism (believing that the United States has gone beyond the scope of the Security Council resolutions in fighting within Iraq), and particularly consider the changes inside the Soviet Union, and maintain the recently developed U.S.-Soviet relations. Naturally, Bush must also take into account domestic reaction to U.S. armed forces' casualties. A cease-fire declared at the right moment will be conducive to his election in the coming year.

What the United States has strived for, of course, includes the right to speak and the right of control in the Gulf and the Middle East. Bush declared at the beginning of the war that, once the war ceases, all U.S. armed forces will be withdrawn from the region. However, the

latest news indicates that he has changed the statement: The armed forces will stay in Kuwait for a period of time and also permanently occupy the southern part of Iraq, under the excuse of preventing Iran, Syria, and Turkey from coveting postwar Iraq.

The Gulf war has ceased, but a greater problem in the Middle East still exists, that is, the conflict between Arabs and Israelis, who have fought four wars in the past. Although Saddam failed to involve Israel in the war with his Scud missiles or link the Gulf war to the Palestinian issue, whether an international conference on the Palestinian issue will be held, whether the secondary will supersede the primary will in U.S.-Israeli relations and whether a new Middle East order and new world order can be established constitute a severe test.

EAST EUROPE

Discussion on Yugoslavia's State Structure Debate

HK2702062591 Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 3, 1 Feb 91 pp 30-31

[Article by Shao Yunhuan (6730 0061 3883): "Federation or Confederation—Debate in Yugoslavia Over State Structure"]

[Text] Since the second half of last year, increasing ethnic tensions in Yugoslavia have given rise to a nationwide debate on the future structure of the country. While the debate has so far been fruitless, it has aroused broad interest overseas on the fate and future of Yugoslavia.

In June and July of last year, Yugoslavia's Collective State Presidency held a meeting with leaders from the various republics and autonomous provinces to discuss the future structure of the country. In a report submitted to the Federal Assembly on the outcome of the meeting, it proposed the drafting of two programs, one of which will be a confederation plan to be handled by the Republics of Slovenia and of Croatia, and the other, a modern federal plan to be handled by the other republics and autonomous provinces.

The Republics of Slovenia and Croatia, both of which enjoy a relatively advanced economy and culture, presented a "confederation model" in early October. The main features of the plan are the following: The future Confederation of Yugoslavia should be an alliance formed by various sovereign countries for the purpose of realizing common objectives and its creation should be premised on economic interests; the confederation will set up a monetary union and define the basic policies in transportation, energy, and agriculture within the economic domain; all member states will maintain their own armies while the confederation will coordinate defense operations; all member states will become a principal entity under international law, thus enabling them to conclude international treaties independently, and set up diplomatic, consular, news, and tourism organizations in third countries; the confederation will

establish a consultative assembly, a ministers' assembly, an executive council, a confederate court, and other organs.

In mid-October, on behalf of the Collective State Presidency and the other republics, Jovic, president of the Collective State Presidency of Yugoslavia, presented the "modern federal plan" which provided for the following: While all republics should cede part of their sovereign rights to the federation, they are independent in the organization of state political power; the constitutions and laws of all republics should not conflict with federal laws; the federation is an integrated economic zone, and the markets of Yugoslavia should be guaranteed by a single currency, foreign exchange, tariffs, banking, taxation, and foreign economic relations system as well as by the free flow of commodities, manpower, capital, and labor force; the federation has the right to defend the independence and territorial integrity of the country, define a national defense and state security system, and determine the foreign policy.

Yugoslavia is a country with an extremely deep and complex ethnic conflict and has experienced division at various stages of its history. Domestic disputes have never ceased and the country only became a federal state after World War II. The ongoing debate on the state structure is a reflection of these conditions.

In July last year, the Republic of Slovenia approved a "Declaration on State Sovereignty" which stressed that its political, economic, and legal systems are founded on the constitution and laws of that republic, and that the federal constitution and laws are valid in the republic only if they do not conflict with the republic's own constitution and laws. At the same time, the republic's foreign minister, Rupel, visited some European countries in a bid to persuade the international media to recognize the republic's position as a sovereign state. Meanwhile, Tudjman, president of the Republic of Croatia, suggested the holding of an international conference on the Yugoslav issue. At the end of last year, plebiscites held in the two republics of Slovenia and Croatia adopted the respective constitutions of the two republics. They then proclaimed themselves independent sovereign states with the right to decide on whether or not to secede from the federation. This provoked a strong reaction from Serbia, the biggest republic. Last 23 October, the Serbian parliament approved a series of economic measures designed "to counter some negative measures taken by the Federal Assembly." The press maintained that in doing so, Serbia has placed itself in the position of the federation. These important events which took place in the three major republics pushed Yugoslavia's choice between federation and confederation into a critical point.

Even though the federal system in Yugoslavia is growing weaker by the day, the prospect of a confederation system leaves many with doubts. They maintained that the "confederation model" has many congenital flaws and that even if implemented, it will face tremendous

difficulties. First, the redefinition of the borders of each sovereign state will present a problem. The reason is that, under a federal system, the borders of each republic remain a domestic issue of the state, while under a confederation system, the border issue becomes a question of national frontiers dividing the various sovereign states. The existing borders dividing the different republics in Yugoslavia were drawn up after the war and there are still many problems. By then, minor border disputes can easily escalate into armed conflicts.

Second, the outbreak of ethnic conflicts will occur. Even though the six republics of Yugoslavia were established according to their principal ethnic composition, they are not inhabited by one single ethnic group. Take the dominant Serbian population for instance. They are not only primarily concentrated in the Republic of Serbia, but some 3 million of them live in the other republics like Croatia, Bosnia, and Herzegovina. Once a confederation is established, these Serbians will become foreign nationals whose ethnic rights and survival will be brought up to the agenda. Leaders of some nationalist political parties have indicated that once the federation is dissolved, they will pull out their own people living in the other republics and form another sovereign state.

There is also the question of a "settling of accounts." Because a federal system basically implements a single policy on investments, credit and income distribution, the various republics are closely linked to one another in terms of economic interests and fiscal relations. If a

confederation is set up, these links will be converted into "old debts" which can never be cleared between the different sovereign states. Slovenia's foreign minister Rupel had indicated that if his country pulls out from Yugoslavia, it will not go empty-handed, but will demand its rightful share of the wealth.

Finally, the European countries and international media also have different views and objections to the so-called "confederation model" of Yugoslavia. Dictated by self-interests, some international economic organizations prefer to deal with a conflict-ridden but integral Yugoslavia, rather than with a Confederation of Yugoslavia made up of several weak states.

At the end of last year, Yugoslavia's Collective State Presidency held an enlarged meeting attended by representatives from all republics and members of the Federal Executive Council. The meeting discussed the urgent political situation in the country, including the question on the future structure of the country. Yugoslav media held that while not much should be expected of this "summit meeting," at least all the leaders came to sit around one table. At present, more and more people have gradually accepted this view: Whether it is a confederation model or a federal plan, the name of the state's structure is secondary. The fundamental issue is whether this system can enable the country to get out of its dilemma. Observers maintained that given the deadlock, the debate over the state structure could give rise to a third solution. Meanwhile, a growing number of Yugoslavs is beginning to recognize: The division of Yugoslavia benefits no one.

Power Struggle Seen Between Deng Xiaoping, Chen Yun

91CM0141A Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 251, Dec 90 pp 28-30

[Article by Sima Lu (0674 7456 3873): "The Decisive Battle Between Chen Yun and Deng Xiaoping"]

[Text] Prior to the Seventh Plenary Session of the 13th CPC Central Committee, there were rumors again of a new power struggle within the Chinese Communist leadership. After having experienced Deng Xiaoping's two broken arms—Hu Yaobang and Zhao Ziyang—the Chinese Communist reformers are again trying to revive themselves. But it is difficult for the average person to have renewed confidence in Deng's latest talk about reform. Moreover, the conservative old men and ultraleftists also feel that Deng Xiaoping's usefulness has diminished greatly. Given the circumstances, momentum to support Chen Yun has naturally increased. Especially since this spring, Chen Yun's old articles and instructions have been republished and his economic thought is being written about and elaborated upon. Even Deng Xiaoping is alleged to have declared, "When it comes to economics, Comrade Chen Yun is an expert." According to what is being said, Comrade Chen Yun has declared, "All the fundamentals of Marxism were thrown away in our 10 years of reform. The use of troops later to quell the student disturbances was wrong." This hints that Chen Yun "has been right all along." It is also being said that some of the old men think that Li Rui [2621 6904], Li Chang [2621 2490], Yu Guangyuan [0060 0342 6678], and Du Runsheng [2629 3387 3932] had direct or indirect ties to the "turmoil." However, during their "re-registration as party members" when there is a "rigorous investigation," Chen Yun issued instructions that "it is not to be pursued." He also declared, "Allowing differing opinions within the party is in the tradition of our party. We must continue to develop this tradition." This also hints that Chen Yun is broad-minded and tolerant, that he is more "enlightened" than Deng Xiaoping, and thus more qualified to lead.

In the past, the average person thought that Deng Xiaoping was a reformer and that Chen Yun was a conservative, a diehard, and an ultraleftist. In the history of the Chinese Communists, Deng Xiaoping and Chen Yun have in fact often shifted back and forth between leftist and rightist positions. For example, during the time of the Jiangxi Soviet Area, Deng Xiaoping was considered a rightist. In the early days of the Long March until they reached northern Shaanxi, he was active in the elimination of counterrevolutionaries and was considered a leftist. During the early part of the Anti-Japanese War, he supported the Wang Ming line and was considered a rightist. After the Chinese Communists came to power, he handled the Gao Rao affair and the antirightists and was considered a leftist. Having been a close follower of Liu Shaoqi in the early sixties, he was, during the Cultural Revolution, considered a rightist. After the

gang of four fell from power, Deng Xiaoping proposed in February 1978 "to develop democracy and emancipate the mind." In only three months he then proposed "upholding the four cardinal principles." On the basis of this, plus the debt of blood he owes the 1989 democracy movement, who can say whether Deng Xiaoping is a rightist or a leftist?

According to Chinese Communist historical documents, Chen Yun has sometimes been a leftist and sometimes a rightist. He has shifted his position many times. During the Lisan line and the early period of the Wang Ming line, Chen Yun was always considered a leftist. During the early part of the Anti-Japanese War at a December 1937 meeting of the Politburo of the Chinese Communist Central Committee and at a Politburo meeting the following February, having openly supported Wang Ming's declaration that "everything goes through the united front, everything is subordinated to the united front," he was considered a rightist. In 1942, having enthusiastically participated in the rectification backed by Kang Sheng, and in 1944, when Chen Yun was secretary of the southern Manchurian branch bureau and too many people died during the enforcement of land reform there, he was considered a leftist. In 1951, when the joint state-private ownership policies were being initiated, to placate the capitalists, he spoke up for many of them. In his address to the Eighth CPC Congress in 1956, Chen Yun declared, "The vast majority of the national capitalists understand the techniques of modern production and economic management... They are what we need... The intellectuals included among the national capitalists represent a highly cultivated class in China."

Chen Yun was elected at the Eighth CPC Congress to become Central Committee deputy chairman and Politburo member, and at the same time, Deng Xiaoping was elected Central Committee general secretary. The Central Committee leadership at that time, in order of rank, were Mao Zedong, Liu Shaoqi, Zhou Enlai, Zhu De, Chen Yun, Lin Biao, and Deng Xiaoping.

At the time of a 1962 Central Committee work conference, a photograph of Mao Zedong and his "close comrades-in-arms" showed Liu Shaoqi on Mao's right, Deng Xiaoping on his left, Chen Yun facing Mao, Zhou Enlai standing behind Chen Yun, Zhu De standing behind Zhou Enlai, and Lin Biao standing behind Mao.

Prior to this photograph, Chen Yun published an article in issue No. 1, 1959, of the periodical PROBLEMS OF PEACE AND SOCIALISM (a mouthpiece of Communist Party intelligence agencies, issued in Prague, Czechoslovakia) acclaiming and praising Khrushchev. In this article, Chen Yun declared of Khrushchev's report to the 21st CPSU Congress "Everyone in the whole progressive world of mankind is excited and heartened by this magnificent plan for building communism in the Soviet Union." "The study of the Soviet Union... is our party's (the Chinese Communist Party's) unswerving policy."¹

People cannot help wanting to ask whether Chen Yun was Mao Zedong's "close comrade-in-arms" or Khrushchev's. In the countless reversals that have taken place in the history of Chinese Communism, in the final analysis, whose "close comrade-in-arms" was Chen Yun?

Based on these historical facts, the person who should have been denounced as "China's Khrushchev" during the Cultural Revolution was Chen Yun. Instead, this label was given Liu Shaoqi and Deng Xiaoping.

At the end of the fifties and during the early sixties, Chen Yun "mysteriously disappeared" from government circles. At the time, a number of specialists in Chinese Communism made various conjectures. Some said he was linked to the Peng Dehuai case at the Lushan Conference. Afterward, this was found to be inaccurate. Chen Yun is actually an extremely clever person. As soon as he saw the falling out between Mao Zedong and Khrushchev and the Sino-Soviet "debate" brewing, he "voluntarily vanished" from the inner circles of political power, heading for the hospital for treatment of illness. At this time, Deng Xiaoping was heading a Central Committee group to criticize revisionist theory and wrote the "nine criticisms" opposing Soviet revisionism. The more effort Liu Shaoqi and Deng Xiaoping put into this theoretical struggle, the more Mao Zedong and Lin Biao felt that something was wrong and that the "Liu-Deng inner-party clique" was waving the banner of "antirevisionism" to usurp the nucleus of central power and was not going to stop. Mao and Lin, therefore, gave them "a taste of their own medicine" by labeling them "the Khrushchevs of China."

In 1965, the name of Chen Yun came up once, closely following that of Lin Biao's. Chen Yun had gone from first vice premier of the State Council to second. Lin Biao was ranked first. This was a year before the Cultural Revolution. After this, Chen Yun again "voluntarily vanished" until April 1969 when Lin Biao was successful in seizing power at the Ninth CPC Congress and Chen Yun was again elected to membership on the Central Committee. At the beginning of the Cultural Revolution, Chen Yun was also denounced. Since at that time he was no longer within the "nucleus of power," he was put in the category of those who only had to "witness the struggles." In a speech to the Red Guards, Chen Boda once declared, "If Liu Shaoqi is China's Khrushchev, then Chen Yun is China's Mikoyan."² Mikoyan was a foreign trade expert in the Soviet Union. Thus, Chen Yun's crimes were not great. He continued to stay in the hospital, looking after his health when he was not sick and undergoing major treatment for minor ailments. During the 10 years of calamity, Chen Yun's method of coping was to "play dead." By making it clear that he would never have political ambitions again, he easily survived the ordeal.

According to Chinese Communist historical documents, Chen Yun was much more of a rightist than Deng Xiaoping. In a speech to the First National People's Congress on 18 June 1956, he said, "We should regard

capitalist industry and commerce... as our national heritage, preserve them, unite capitalists and their representatives, and bring into play their strong points." In his early years, Chen Yun had a lot of views of his own on Chinese Communist financial and economic policies. In addition to his public praise for Khrushchev, he publicly expressed his support for measures such as "opposing rash advance," "more plots for private use, more free markets, more enterprises with sole responsibility for their own profit and loss, and fixing output quotas on a household basis," "contracting output quotas to households with the production team conducting unified accounting," and "division of the land according to household." If we can say that Khrushchev was the initiator of Soviet revisionism during his time, then Chen Yun is his current successor to developing Communist Chinese revisionist theory.

However, members of the Communist Party leadership are often likely to have reversed their own historical positions. For example, Chen Yun originally was a Chinese Communist rightist, a disciple of Khrushchev. Today, he has shifted to become head of the Chinese Communist ultraleftists. Deng Xiaoping originally supported the party's "nine criticisms" denouncing Soviet revisionism and later shifted to become head of the party's reformers. Today, Deng Xiaoping has changed his coloration even more. His features are blurred and indistinct.

Why have Communist Party leaders such as Deng Xiaoping and Chen Yun changed so much? The main reason is that they are both genuine idealists and, at the same time, thoroughgoing opportunists. To strive for power within the party and to achieve their desire for individual power, if someone stood on the left, they would strike back from the right. If someone stood on the right, they would strike back from the left. They both waved the banner of the line struggle. But, in fact, it was a mutual struggle for power, power, and more power. For example, the years of the Mao-Liu power struggle resembled a chess game. Having lost the legal struggle within in the party, Mao gave the chessboard a shove, declaring, "This game doesn't count. We're starting over." This was the rebellion of the Cultural revolution.

According to Chinese Communist historical documents, in the past Chen Yun's position in the party was for quite some time higher than that of Deng Xiaoping's. Most of Deng Xiaoping's experience was in political work among the troops, whereas Chen Yun's work in the party included the workers movement, underground work, and financial and economic policy. The extent of his experience was much broader than Deng Xiaoping's. The political storms that Chen Yun has weathered throughout his life have also been greater than those experienced by Deng Xiaoping, and Chen's ability to handle political emergencies is stronger. After the gang of four fell from power, Deng Xiaoping became leader of the Chinese Communist reformers more or less fortuitously. Since Liu Shaoqi of the "Liu-Deng inner-party clique" had died, Deng Xiaoping naturally became the

representative of the victims of the Cultural Revolution. At the time, Hu Yaobang was director of the Central Committee Organization Department and president of the Central Committee Party School, and it was Hu and reformist powers both inside and outside the party who "placed the imperial robes" on Deng Xiaoping. Thus, his becoming leader of the reformers had nothing to do with his ideals and nothing to do with his abilities. His "investiture as emperor" was rigged. In addition, everyone, both within China and internationally, wanted reform on the Chinese mainland. As a result, Deng Xiaoping momentarily became the bright and shining red star of Chinese Communist reform.

Such being the case, the qualifications of the other ambitious Chinese Communist schemer, Chen Yun, have been equal to Deng Xiaoping's and to some extent even stronger, although in the past Chen's views were more rightist than Deng's. If during Deng Xiaoping's age of glory, Chen Yun emerged in a reform position, the chess pieces that Deng has are what would command the most respect. An overly ambitious schemer such as Chen Yun is not going to be easily satisfied. He has two choices. First, he can use the Mao Zedong tactic of shoving aside the chessboard. This is probably not feasible in present-day China. His second choice is to reestablish his position. If Deng hews to the right, Chen hews to the left. If Deng goes in for reform and opening to the outside world, then Chen's course is to wave the banner of orthodox Marxism and establish himself as the leader in defense of tradition. Because the privileges of some people in the party are threatened by reform, because some depend on the ultraleft for their livelihood, and because some eat out of the "same big pot" and are lazy, "reform" makes them feel they will not be able to cope. Consequently, there is a definite social base for the role played by Chen Yun.

I have a bold judgment to make about the present Chinese Communist power struggle: Deng Xiaoping's line has already come to its historical conclusion. The age of Deng Xiaoping is about over. Nevertheless, irrespective of the circumstances of Deng Xiaoping's demise, if the Chen Yun faction should win the struggle, Chen Yun will likewise be but a transitional figure in history. Given his advanced age and his health, he absolutely will not be able to come from behind the scenes to center stage. The role he will play will be that of an "emperor's expert assistant," filling in for Deng Xiaoping's current position.

With respect to their personalities and work styles, Deng Xiaoping is the "reckless" type and Chen Yun the "sly" type. After Deng Xiaoping has gone, the Chen Yun faction will not be able to let go of the slogan "reform and opening to the outside world." They will underline that the achievements of "reform and opening to the outside world" are the achievements of the party and a victory of the party's flexible use of Marxist economic theory. Deng Xiaoping is unwilling to abandon his adherence to the four cardinal principles because he proposed them himself. However, at the same time, the

Chen Yun faction could easily announce the abandonment of a slogan which does not have popular support and which has been Mr. Deng's signboard. The "bird-cage economics" of the Chen Yun faction is a system composed of out-and-out feudal lackeys. The so-called "planned economy" implemented by socialist and fascist countries in the past consisted of concentrating power and wealth in the hands of a few oligarchic autocrats. Being more realistic than Deng Xiaoping, Chen Yun does not care about "adhering" to slogans.

The brilliant tricks Chen Yun plays and the false impressions he creates to strengthen the feudal dictatorship are many and varied. He has said, "The ability to hear differing sounds is not necessarily a bad thing." This is what Mao Zedong said to lure the snakes out of their holes to thereby publicly expose them. Chen Yun has also said, "If there are no differing opinions, you yourself have to create an antithesis."³ This means creating imaginary enemies and exterminating potential enemies. In my judgment, the Chinese Communist leadership will within a short time stress collective leadership and the status of the "Red nucleus" will gradually be diminished. The closer it approaches becoming a genuine nucleus of power, the more violent the struggle will be. Both Deng Xiaoping and Chen Yun have in the past said that the three categories of people from the Cultural Revolution cannot be used. At present, it is a historical irony that those who made reprisals during the Cultural Revolution are emerging one after another to join the genuine nucleus of power. The success of Zhang Xuwei [7022 1776 1919], the executive vice director of the Central Committee Propaganda Department, is an example. During the Cultural Revolution, he was a hired thug. He is still a hired thug. The Chen Yun faction put this Cultural Revolution thug in a high position because they themselves are too old or too few.

Today's Chinese Communist power struggle is characterized by Deng Xiaoping's rapid decline and Chen Yun's sudden spurt of activity before his imminent collapse. The road has run out for both of them. When a feudal regime reaches this point, the word "coup" continues to crop up. One possibility is a palace coup and another is an outside civil uprising. I firmly believe that China will undergo a major unexpected turn of events very soon.

Footnotes

1. Based on writings published in 1959 by the Beijing People's Publishing House.
2. SHOUDU HONGWEIBING BAO [CAPITAL RED GUARD NEWS], 21 January 1967.
3. Chen Yun article in QIUSHI [SEEKING TRUTH], No 8, 1990, "Being Charged With Important Tasks and the Philosophy of Study." [published in FBIS-CHI-90-076, 19 April 1990, pp. 2-3] Originally said by Chen Yun in a talk to Central Committee leaders on 17 July 1987.

He Jingzhi Comments on Opera Depicting Fishermen

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0856 GMT 4 Mar 91*

[Text] Beijing, March 4 (XINHUA)—“Haipeng Flower”, an opera performed by the Changhai County Arts Troupe of seaside Dalian City at the beginning of this month, has won popularity in Beijing.

The opera tells the story of how two fisherman's families become rich after China adopts its reform and open policy. Based on the fishing songs, folk songs and folk tunes of the fishermen in north China, it creates a series of musical and dramatical scenes which are imbued with an island flavor.

The PEOPLE'S DAILY commented recently that the opera “has its characteristics in music, dance and stage design. The music is characterised by a strong tints of folk and fishing songs, which are handled naturally and appropriately; the dances are superb and excellent.”

He Jingzhi, the acting minister of culture, said that the opera addresses interesting aspects of modern life, adding that it is sweet and charming.

The opera was created in 1984 and won a prize at the Dalian Art Festival in 1985. It was performed as part of the first national opera joint performance last November, winning prizes for program and choreography.

Changhai County is an island county in northeast China's Liaoning Province. The county is surrounded by the sea. It is not only a marine products base in China, but also a good place for touring and resorting.

Since China adopted its open policies, the economy on the island has developed rapidly; the per capita income has been tripled in the past 10 years. The county's arts troupe, set up in 1978, has often performed singing and dancing programs to enrich the fishermen's life.

NATIONAL AFFAIRS, POLICY

Deng Xiaoping 'Intervened' in Economic Planning

91CE0189A Hong Kong CHING PAO [THE MIRROR]
in Chinese No 11, 11 Nov 90 pp 41-43

[Article by Huo Sifang (7202 2448 2455)]

[Text] Deng Xiaoping once said, "When it comes to economic issues, report more often to Chen Yun [7115 0061]." Faced with a deteriorating economy, however, Deng Xiaoping has once again intervened in the formulation of the Eighth Five-Year Plan and the 10-year blueprint for economic development. As a high-level figure in the CPC said, Deng Xiaoping's unique position in Chinese politics prevents him from staying inactive.

After the Asian Games, the Chinese Communist Government congratulated itself on its success and the absence of incidents, on the one hand. At the same time, it worried about how to "further the spirit of the Asian Games." According to my studies, the overwhelming majority of the people are interested only in the events of the games, not affairs of state, only in gold medals, not politics. Many people are concerned about the economic impact of the Asian Games and have been making veiled criticisms of the government for pushing for "donations" mighty hard and putting up all sort of large projects while ignoring the growing sluggishness in economic life and the people's declining living standards. This is reflected in popular concern about the prospects of China's economy.

Economic Work Conference Inconclusive

Between 13 and 19 September, the top echelons of the CPC summoned the administrative leaders of all provinces, municipalities, and autonomous regions as well as members of their economic planning commissions to Beijing to attend an economic work conference. The conference was called to discuss the Eighth Five-Year Plan and the 10-year plan and solicit the opinions of the provincial, municipal, and autonomous regional leaders. It lasted two days and was characterized by endless arguments. The localities objected to the central government for taking back too much power, while the central government criticized the former for "ignoring the broad picture." The opened and special economic zones demanded that "special policies be put into effect." Provinces and municipalities in the interior demanded that "coastal areas take into consideration the interests of the interior as well." Industrial ministries at the center demanded that industrial management improve. The localities demanded that the "central government not take away every local interest." Consequently, the conference failed to reach a consensus and broke up on a sour note. The State Council had no choice but to ask all the provinces, municipalities, and autonomous regions to come up with their own Eighth Five-Year Plan and 1-year plan. The central government would then reconcile them and weave them into a coherent whole. So, once again, the Eighth Five-Year Plan and the 10-year

plan, which Yao Yilin [1202 0181 2651] has been charged with formulating, were vetoed.

As a matter of fact, before one can discuss the Eighth Five-Year Plan and the 10-year plan, we must first assess China's current economic situation. A mainland economist involved in drawing up the plans told this reporter that while the different schools of economists in China today use different methodologies and hold different viewpoints when they assess the economic situation, they arrive at the same conclusion, namely, that the economy is in crisis. Thus when Premier Li Peng said on several public occasions that the "economy has bottomed out and is getting better," many people, Yao Yilin among them, disagreed. The economists are not optimistic about the economic situation for these reasons:

Worsening Economic Performance Leading to Turmoil

1. Although both output value and profitability have been improving month after month this year, the growth has been mostly limited to enterprises funded by the three sources of capital, township and town enterprises, and privately owned enterprises. In contrast, the bulk of large- and medium-sized state-owned enterprises, which account for two-thirds of China's enterprises in number, have shown no growth. There is a shortage of working funds. Inventory is high. Factories have suspended operations or are operating at half capacity. The wear and tear of fixed assets is accelerating even as enterprises lack the means to replace them. In the past, these enterprises were the main source of government revenues. Today, however, they depend on finance agencies at all levels to prop them up. Meanwhile, enterprises of the three capital sources, township and town enterprises, and privately owned enterprises turn over only a limited amount of profits to finance agencies at all levels, thus providing little relief to a government increasingly strapped for money.

2. A related point is the deteriorating budgetary situation on the mainland. Last year revenues exceeded expenditures 2.5 billion yuan. Between January and August this year, expenditures exceeded revenues almost 8 billion yuan and the deficit for the entire year may well break the 10 billion yuan mark. This state of affairs will put the economic system of the mainland, where government money keeps the economy running, in a bind. How to shape economic life next year is a big problem.

3. Profits are slipping by the month and the trend cannot be reversed. In 1984, Zhao Ziyang was put in charge of the State Council and stressed the important notion of improving profitability as one of the highlights of the economic restructuring plan put forward that very year. He also put a lot of emphasis on the development of powerful market mechanisms to guide the enterprises to regulate their own production and management behavior using the law of value. The results were highly successful. Yet, to make the enterprise truly profitable, a string of coordinated reform measures must be taken, such as separating government administration from

enterprise management, defining property ownership clearly, establishing markets for capital goods like funds, labor, and asset ownership, reforming the price system, and adjusting the industrial structure. However, owing to interference and resistance by conservative forces at the highest levels of the CPC, it has been impossible to get these essential measures off the ground, thus denying the drive to improve profitability its accompanying conditions in the fields of technology, funds, and market. After 4 June, the old order of the command economy has been gradually restored, dismantling or curbing what limited conditions there were that have helped the improvement of enterprise profits. The upshot is that the push by enterprises for technological progress and improved profits has been badly hampered. Between January and September this year, profits have been caught in an unstoppable free fall. Mainland economists reckon that the intractable problems surrounding profitability may well be one of the primary root causes leading to economic and political turmoil on the mainland.

No Conclusive Word On Economic Rectification From Experts

1. The mainland has now entered the peak period of debt repayment. Because of sanctions by the West and the influence of the situation in the Persian Gulf, the terms for international borrowing have become even more stringent. So it is now very difficult to borrow to repay debt. To pay off its foreign debt of \$66.6 billion in the 1990's, China has no alternative to relying on its own resources, which will be no easy task given the current state of the economy. Although its exports have risen substantially this year and the nation has chalked up a trade surplus, this must be seen as the result of a sagging demand that extends across the board and swollen inventories at home. In the case of many exports, the costs of earning foreign exchange are high, so exporting them virtually amounts to "exchanging blood for exports." Because of deep exports, we have already run out of reserves in some materials traditionally in short supply at home. Once the recession is over, this could lead to shortages. Exporting thus provides no long-term means to repay our debt.

To sum up the above-mentioned factors, Chinese economists are very pessimistic in their projections of China's economic prospects. The fact that no economic expert has a clear idea of the effects of the current drive to improve the economic climate and rectify the economic order tells us a lot. There is a widespread skepticism among economists regarding the policy's feasibility and effectiveness. The string of measures taken by the government to pump more life into the market and stimulate the economy, they say, are "paying for stability" at best and may lead to more instability and even a disaster in the end. Mainland banks have made loans totalling 130 billion yuan to society this year, much more than the same period last year. In contrast, the GNP edged up a mere 1.6 percent, two percentage points lower than the corresponding period in 1989. Of the loans, a

good number ended up as goods sitting in the warehouses. Another batch of loans will become part of the enlarged money supply circulating in society, a potential source of inflationary pressures. All this forebodes instability. The miscarriage of the Eighth Five-Year Plan and the 10-year plan, so painstakingly put together by the top levels of the CPC, reflects precisely the softness of the mainland economy and a widespread pessimism among the population.

Three Proposals to End Economic Plight

The fact that economists see eye to eye in their assessment of the economy does not hide the sharp differences between their proposals. Right now there are basically three proposals revolving around the formulation of the Eighth Five-Year Plan and the 10-year plan. According to the first proposal, many measures intended to improve the economic climate and rectify the economic order have not been implemented or have not achieved their goals. During the Eighth Five-Year Plan, assuming no change in the basic economic framework, we should continue to concentrate on improving the economic climate and rectifying the economic order and fight mightily hard to put together more key capital construction projects, depending on the financial circumstances, so as to create the necessary material conditions for the implementation of the Ninth Five-Year Plan. Enterprises should still concentrate on perfecting the contract system, supplementing it with efforts to establish enterprise groups and introduce a separate-tax system and an after-tax loan repayment system in order to straighten out the relations between the state and the enterprise and between enterprises themselves.

The second proposal holds that improving the economic climate and rectifying the economic order will not solve the major problems in China's economic life today. The coexistence of two sets of institutions—old and new—has thrown economic life into turmoil across the board. During the Eighth Five-Year Plan, the focus should be on restoring and improving economic planning. Power previously delegated to the localities should now mostly be returned to the central government. Macroeconomic regulation should be tightened. The fiscal resources of the central government should be beefed up. Large- and mid-sized enterprises should be put under unified central control. Essential materials should be centrally allocated by the state. Small commodities and township and town enterprises should be allowed to follow market regulation, but township and town enterprises must be drastically cut back to steer more workers into new lines of agriculture.

According to the third proposal, we should continue to concentrate on the reform and open policies. Let the share-holding system spearhead the reform of property ownership so as to expedite the adjustment of the industrial structure as well as the product mix. Let price reform spearhead the maturing of the domestic market. Attract foreign capital with even more open policies. Expand exports. Follow the general philosophy of "the

state regulating and controlling the market" and the "market guiding the enterprise." Work hard to establish a new economic system, while paying attention to development, by the end of the 1990's in order to pave the way for a full-fledged economic resurgence in the next century. This proposal closely resembles the general line of the 13th National Party Congress of the CPC.

As far as I know, the first proposal still has the upper hand as of this writing. Proposal 2 too is backed by solid political forces. Only Proposal 3 is in a weak position, supported by no powerful political figures. An economist who took part in the formulation of the Eighth Five-Year Plan and 10-year plan told this writer that he is personally inclined toward Proposal 3, as are many other people. Without a major push for reform, they believe, China has no future. Once the fruits of the decade of reform are eroded by the so-called drive to improve the economic climate and rectify the economic order, there would be nothing to build on if we go down the road of reform again. Owing to the power of the "Chen Yun economic faction" in the top echelons of the CPC, however, these people hesitate to push their views and have no choice but to go along. He reckoned that economically speaking, the 1990's may well turn out to be the "age of Chen Yun." Only when Chen Yun's traditional "socialist planned economy" has reduced China to utter hopelessness, only when Chen Yun's generation is no longer able to control China's politics and the economy would China have another chance at reform and gain a new lease on life. The old economic and political institutions are like a pair of Siamese twins; they rely on and support each other. It is not enough for just one set of institutions to die. The two must die at the same time. Only then would China have hope.

Deng Xiaoping Lets Chen Yun Interfere In the Economy Excessively

This economist's appraisal is not unfounded. Earlier high-ranking people in the party reported a number of times to Deng Xiaoping regarding the formulation of the Eighth Five-Year Plan and 10-year plan. Deng Xiaoping, for his part, told them three times, "When it comes to economic issues, report more often to Comrade Chen Yun. Listen to his opinions." Of course, Deng Xiaoping still calls for firm adherence to the policy of reform and open policy. "Make the construction of Pudong in Shanghai a success." "Reform and the open policy must have continuity."

This attitude on the part of Deng Xiaoping, some say, is a function of the shifts in the balance of political power. Hu Yaobang and Zhao Ziyang have fallen from power successively. Other people in the party dare not speak up. But there is a bunch of old men in the top echelons of the CPC who continue to bear a grudge against Deng Xiaoping. They are critical of Deng Xiaoping yet unwilling to confront him openly. There is a tacit understanding among them: The unity of the CPC depends on the presence and unity of the older generation of revolutionaries. If we fall out with one another, this argument

goes, it will not be good for anybody. Despite their mutual ill feelings, therefore, they invariably stick together at any critical juncture. The harmony and tacit understanding between them takes a special form and requires a special individual to realize it. This special individual is Wang Zhen [3769 7201], who frequently visits the old men to pass on messages and exchange good will.

The Role Wang Zhen Plays

As far as military exploits go, Wang Zhen is so-so. In terms of talent and learning, he is mediocre. People thus cannot help but wonder how he got to be so powerful today. The reason is that he is indispensable to maintaining unity and harmony between the elder statesmen. After 4 June last year, Wang Zhen often carried "a certain viewpoint" and a "certain opinion" from a group of people, including Chen Yun, Peng Zhen [1756 4176], Li Xiannian [2621 0341 1819], Song Renqiong [1345 0117 4522], and Bo Yibo [5631 0001 3134] to Deng Xiaoping, on topics ranging from the important—state policy and principles, the rights and wrongs of the third generation of leaders—to the trivial—the daily life, diet, and health of some elderly people. One hidden message that Wang Zhen delivered to Deng Xiaoping from the elders was this: Because of Zhao Ziyang's mistakes and the 4 June events, your prestige inside and outside the party has declined. To protect your image and prestige, you should give more work to other elderly comrades and not involve yourself in everything. After careful reflection, Deng Xiaoping took the hint. In September last year, he announced his resignation even as chairman of the Central Military Commission and let Jiang Zemin take his place. Afterward, he indeed became reclusive, not meeting with foreign guests and seldom speaking out unless absolutely necessary. This demonstrated his resolve and sent a message to other elder statesmen: relax.

Deng Xiaoping's attitude makes the "third generation of leaders" very cautious and fuzzy in their political attitudes. Every upcoming leader who wants to consolidate his position must consider the grade he is getting from every single elder statesman; it is not reliable to depend on just one person. Collectively, therefore, the third generation of leaders appears to lack a clear-cut, decisive political hue. It is rather difficult for them to establish their own prestige and make a mark. Among these leaders, Li Ruihuan [2621 3843 3883] appears to have a clearer political inclination but is too hamstrung by the political environment to fully display his style of statesmanship. For these reasons, no elder statesman feels confident enough to pick anyone among the "third-generation leaders" and entrust major responsibilities to him. Ultimately, when an important issue comes up, the decision still has to be made by the elder statesmen. It was probably this kind of consideration that prompted Deng Xiaoping to ask Chen Yun to involve himself in economic matters.

Deng Xiaoping's Status Does Not Allow Him To Be Inactive

However, a high-level figure argues that it would be incorrect to consider Deng Xiaoping's current political attitude a given. If the economic situation on the mainland continues to worsen, leading to turmoil, Deng Xiaoping would surely make some change; his unique position in Chinese politics does not let him remain inactive. On 22 October, Chen Jinhua [7115 6930 5478], the newly appointed director of the State Economic Restructuring Commission, suddenly told XINHUA SHE reporters that throughout the Eighth Five-Year Plan and even the entire 1990's, China must not only continue to reform and open itself to the outside world, but would also do so better, faster, and more effectively, as Deng Xiaoping has demanded. This shows that Deng Xiaoping has begun to get involved in the two economic plans. There are reports that soon after leaving Beidahe in August, Deng Xiaoping went to Shanghai to live in seclusion. Some people speculate that he is observing and testing Zhu Rongji [2612 3579 1015]. Once the time is right, he may play the "Zhu Rongji card," which will be a devastating move.

That the Seventh Plenum of the 13th CPC Central Committee has been postponed until December clearly has something to do with the fact that no final decision has been taken on the two economic plans. The coming plenum can be expected to take a decision on these three issues: one, how to launch the Eighth Five-Year Plan and 10-year plan; two, reaching a conclusion on the Zhao Ziyang issue; and three, determining the historical longevity of the central advisory commission. Indeed, these three issues are the paramount issues in the politics and economics of the mainland today. Once again the CPC is facing a historic choice.

Reform Strategy for Economic Operation

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[Article by Guo Shuqing (6753 2885 3237) of the Economic Research Center, State Planning Commission, edited by Qiao Tongfeng (0829 2717 1409): "Transition of Operational Mechanism of the National Economy and the Choice of Reform Strategy"]

[Text] The performance of the national economy since 1989 has successively broken the major conclusions and anticipations which the economic circles have continuously readjusted. With their merciless power of clamping down all theoretical interpretations and concepts of experiences as well as various kinds of suppositions or wishes, facts have compelled people to doubt the fixed views which have long been formed relative to China's economy.

What Changes Have Taken Place in the Economic Operational Mechanism?

Improvement and rectification form another readjustment period of our country's economy. Decline in the

economic growth rate and rise in unemployment are phenomena which inevitably appear in each and every readjustment period, and the readjustment this time was no exception. But this time it is different from the several readjustments before the reform, and is also different from the so-called "soft-landing" period in 1985-1986 after the reform. After commencement of the readjustment this time, accompanying the fall in the industrial growth rate and rise in the unemployment rate, a series of changes and reactions have appeared in the economic structure for the first time in the past 40 years which possess a significance affecting the whole situation.

The facts which have made each and every consumer feel the historical changes in our country's economy are: Since the founding of the republic, for the first time a market situation of supply universally exceeding demand has appeared.¹ Such an extensively sustained market weakness was never seen before or even thought of by people. It is not at all important if in the appearance of such a situation there were certain man-made factors or that the situation was only of an occasional nature. That the situation could be sustained for a prolonged period of time is of secondary importance, nor does it matter that the situation could be replaced by a contrary situation. What is of importance is that the situation has appeared. This naturally implies that the basic conditions for its appearance have been formed and that the role of restricting demand has the possibility of becoming a reality in economic life.

A careful examination of the market weakness this time may see in it a phenomenon never found before: stagnant sales first started from industrial consumer goods which, generally speaking, had never been stagnant in sales before and, besides, started with several industrial consumer goods which in recent years had enjoyed most brisk sales. What was particularly out of the ordinary was that the stagnant sales in industrial consumer goods were not due to quality problems² The question or cause of the structure also was not sufficient to explain the all-round stagnant sales. And what deserves economists' attention more is that following the stagnant sales of consumer goods, all-round stagnant sales of the means of production developed. This attracted the slowing down of industrial production as a whole. This fully proves that society's end demand has begun to display its independent, direct, and overall decisive role over the national economy.

Another indication of the economic operation's obvious deviation from the usual track of past readjustment periods was the sustained rise in the gross savings or accumulation rate. In past readjustment periods, usually the savings or accumulation rate went downward, the consumption rate went upward, and the scale of the changes was also relatively large. But the condition since last year has been exactly the opposite. According to our initial estimate, in 1989 the gross savings rate rose by 1.48 percent over the preceding year, and the residents' savings rate was also upped by 2.13 percent³ Under the

conditions of the sharp fall of 20 percent in fixed assets investments (including price factor) and an extremely small difference between the import and export of commodities and services, a considerable portion of the gross savings could only be used to support the excessive increase in the stock or reserve holdings (or accumulation of floating assets). The position and role of the two variables of the volume of savings and stock-holding changed from passive to active and from passivity to regain the initiative, also from being subordinate to other volume changes (such as in fixed assets investment and agricultural harvest) to possessing an independent and initiative significance.

Another sort of change in relationship noticed by few people was the severance of the close and relevant liaison between industrial growth rates and good or poor agricultural harvests (particularly volume of grain production). For a prolonged period, China's economy has adhered to the following law: under the conditions of political stability, a good harvest in agriculture would be followed by an accelerated growth in industry; whereas with a poor agricultural harvest the growth speed of industry would decline, even to the extent that the whole national economy would have to be overhauled. In 1989, there was a plentiful harvest in agriculture, and grain output volume reached the highest peak in history. This year, summer grain again reported a good harvest yet industry was going along at a low ebb. When we come to consider the facts that since the second half of last year the supply of energy and raw materials has gradually turned for the better and that this year there has actually been an excess in storage or holding of these essential elements, we can make the conclusion that the industrial depression this time did not result mainly from the shortage of resources. This is an obvious sign that China's economy is no longer completely under the limitations or resources, although we cannot positively say that limitations in resources have completely vanished.⁴

According to economic theory and economic history, the various phenomena mentioned above can happen only under the following condition: that in the economic operations market mechanism has at least occupied a basic or leading position. Although such a conclusion seems to be extremely natural, definitely it will be doubted and disagreed by many people.

People may mention many contrary instances and particularly stress the facts of China's current market mechanism being imperfect and possessing many serious distortions. However, if we make an unbiased analysis of these complex forms and unclear phenomena, carefully examine and find out the functional forms and results of different mechanisms, distinguish the economic relations among the reciprocal contradictions, and delete the distortions imposed by the various phenomena on innate quality or mainstream, then we cannot but admit: the operational mechanism of China's economy has undergone actual qualitative changes; and that if these changes represent the direction of the reform of our country's

economic structure, then we have already entered the main gate of the new structure.

To further prove the above conclusion, it is necessary to penetrate the internal layers more directly, and examine whether or not the conduct and direction of the economic main body and the basic structure of the economic system have undergone the same kind of changes. Here we shall mention the results of the analysis on only several most principal phases:

First, generally speaking our country's enterprises have initially possessed the mechanism of seeking market interests and at the same time have in varying degrees cultivated the understanding of risks and a definite ability of risk-taking. Putting it in simple terms, this indicates that our country's enterprises have possessed a definite competitive nature. Why this is so is mainly due to three causes: 1) The initial formation of the economic pattern of the coexistence of many forms of the ownership system. Nonstate-owned economy makes up 44 percent of industry, 61 percent of retail sales commerce, and over 95 percent of agriculture. This has provided important preconditions for market competition, and to a very large extent this kind of pattern itself is also the result of market competition. 2) With the state-owned economy possessing an enormously large number of enterprises internally, the reform having made the interest relations of the enterprises definite and clearcut, and the understanding and ability of doing independent business accounting continuously increasing, the "preferences" that can be provided by the state have steadily dwindled. All this has relentlessly pushed the state-owned enterprises into gradually taking part in competition. 3) The economic open-door and enterprises in the country meeting with the challenge of competition and pressure from abroad. Practice in economic life since 1988 has shown that the sensitivity of our country's enterprises to the prices of input and output has been initially formed and their motive has been very clear of seeking the maximum differential between the prices of input and output. Following the upward movement of interest rates, the enterprises' reaction has been much more violent than originally expected. In particular, under the conditions of the stagnant sales in products and the sedimentation or staying out of funds, many enterprises would rather cut down on production and are unwilling to borrow more circulation funds. The enterprises for the first time have shown a warm feeling for information and news on goods in stock, market demand, and the anticipated benefit rate. Different from in the past, this year the macroeconomic control departments have repeatedly encouraged investment in expanded renovation and transformation. However, in the first half of this year the investments in renovation and transformation, following the drop in the preceding year, went down by 3.4 percent, a phenomenon seldom seen in many years. Furthermore, what surprised people in the financial circles was that from January to August this year the enterprises' deposits increased by 57.4 billion yuan, whereas during the same period last year they

dropped by 4.6 billion yuan. The enterprises have also become more sensitive to the exchange rate. Last year when the renminbi exchange rate was adjusted downward, as soon as the news spread enterprises with foreign exchange holdings at once began selling in the foreign exchange market, which made the market exchange rate drop sharply.

Second, actual supply-demand relations have become the principal force influencing the changes in the economic coefficients. In the gross value volume of all the products and services, prices wholly or basically determined by market supply and demand actually amounted to around 76 percent. Of the agricultural products, the portion not subjected to state purchase orders occupied 76 to 80 percent; of the industrial consumer goods, the portion not subjected to price control and the portion, though in form subjected to state price-fixing yet actually still being adjusted by the enterprises themselves, amounted to over 85 percent. As for the means of production of industry, the portion of which the prices basically reflected the scarcity nature of resources made up at least around 65 percent. Regarding the services trade, aside from the public services departments, the prices were basically freely formed. Speaking about interest rates as a whole, since 1989 they can also generally reflect the supply-demand relations of funds. Although the interest rate that has enjoyed free movement has been confined to the deposit and loan funds of rural cooperative societies, discounting inside the same trade, trust investments, social raising of funds, and civilian finance, yet interest rate readjustment by the whole state banking system has become increasingly normal and attempted to reflect or suit the actual market conditions. The basic trend of changes in exchange rates has also gradually approached the market level, the differences between the state's official exchange rate and the readjusted market rate and blackmarket rate have been greatly reduced. Also, in the gross volume of foreign exchange transactions the proportion of nonofficial rate has occupied by far the greater portion.

In the state's macroeconomic regulation and control, despite the continued retention of much direct control, seen from the actual effects indirect control has played the major role.⁵ Up to 1988, industrial production under the direct control of the state's mandatory planning occupied only 17 percent of the whole industrial output value, compulsory purchases and distribution by the state of agricultural products was roughly in the neighborhood of 20 percent, and the proportion of means of production under the state's unified distribution was approximately lower than 35 percent of the total output value of heavy industry. The reason why the double-digit currency inflation in 1988 could be reduced in a year's time was principally the dependence on financial "double-tightening," upward adjustment of the interest rate, and reduction of the expansion speed of effective demand. If it is said that the method of administrative control of commodity prices also played a certain role, then this is principally due to the state finance correspondingly increasing the price subsidies or loss subsidies to

the enterprises. Sharply reducing fixed assets investments has a more convincing force. In actually carrying out investment, the number of projects actually listed for stoppage or delay in construction is not large. Besides, among them are many which have been approved but on which construction has not begun or which do not have the conditions for construction. Because of this the State Council has reiterated the guideline for cutting down investment and has actually despatched personnel to make on-the-spot inspections. But the unexpected fall in the gross investment scale and its falling at an increasing speed is basically due to the fact that following the financial depression, the source of funds has been tightened, the cost of market merging of funds has risen rapidly, while the anticipated investment benefits have been falling. Improvement of the foreign trade and foreign exchange situation is principally benefitted by the easing of the tightened state in the domestic markets, the readjustment of the exchange rate, customs duties, and import regulation tax, as well as the readjustment of the foreign exchange retention ratio and readjustment of prices, all of which have pushed export but restricted import.

Lastly, as an important and main economic body, the individual resident in economic life has played an unprecedentedly active role. Even under the traditional structure, the individual consumer also conceived a high degree of sensitivity to the prices of consumer goods. The consumer at present on the one hand has further strengthened consumption demand flexibility (regardless of whether it be flexibility in price or flexibility in income) and on the other hand has also greatly strengthened his psychological suitability to price fluctuations. The degree of concern of the individual investor and savings depositor with the interest rate and benefit rate is compatible to that found in many countries. As for the people's attitude toward the buying of securities (debentures, stocks, and shares), it is also being changed from being passive to being active.

It is thus not difficult to imagine that the merging of all these factors in economic activities has formed a picture of economic operations that are basically market-oriented.

Form of Transition of the Economic Structure, Success and Price

In order to avoid misunderstanding, it must first be explained and categorically stated that the actual changes that have occurred in the national economy's operational mechanism did not imply the completion of the transition of the economic structure. On the contrary, the stage of transition has not yet finished. Many difficulties still lie ahead. To more accurately describe the current state of our country's economic structure, it should be said that presently we have entered the main gate of the new structure, but we are still at the threshold with one leg still remaining outside the gate.

Up to now, compared with the Soviet Union and the East European countries, the actual practices have been different and China's reform has taken a special road. Talking from the angle of preparations in thought and theory, China's reform has come in a most sudden manner. Aside from certain most common guiding principles, China's reform has reserved many problems for actual practice. The concrete objects, steps, methods, and so forth have all been gradually and naturally formed in the course of progress through continuously making selections from a series of difficult problems. The road taken by China's reform has been a circuitous one, gradually progressing, giving the grass-roots level the greatest degree of freedom, striving for partial breakthroughs, continuously doing "trial-and-error" work, and frequently relapsing. This has been the basic strategy of China's reform.

Through making the most common theoretical analysis, it can be found that this type of strategy had its strong and its weak points. But when comparing the weak points with the strong points, they seemed to be of little consequence under the situation of the latter period of the 1970's. Under the guidance of the principle designated by the central government, rural reform was organized by the localities of their own accord. The timing, order, and method were not uniform and although certain losses were incurred the successes achieved were surprising. As for the reform of the urban economy, from the very beginning the method adopted was like that of the rural areas. The central government supervised and urged the departments and localities, and the latter mobilized the enterprises to be based on their own suppositions to develop piloting points and to extend the experiences. The central content was delegating power to the enterprises, but the concrete method of so doing was in varying forms. The basic situation thus formed was: the frontal part was relatively stable and secure but the two wings were rapidly penetrated; no great movement happened as a whole but the partial differences were starting. Principal provinces and cities with strong economic foundation such as Shanghai, Liaoning, and others were kept in stability while Guangdong, Fujian, and several other provinces were more or less loosened in control. Fairly tight control was imposed on the large and medium-sized enterprises while the small enterprises were invigorated; state-run economy moved slowly and non-state-run economy quickened their steps. Direct control was imposed on planning, finance, prices, and so forth; the control was hard and strangling on the main body and "basic figure" while there was loosening and opening on the sides and in respect of quantitative increased. On the sides of labor employment, remuneration, and fringe benefits, the line followed was that "old people, old affairs pursued the old methods" while "new people, young affairs pursued their new ways"; time could be taken on the readjustment and smoothing out of domestic economic relations but external economic relations must be treated specially and speedily and expanded greatly; and so on and so forth. This sort of

reform strategy tendency gave people the direct impression of the shrinking and weakening of the old structure rather than the formation and development of the new structure and of the setting up of a new structure on the fringe of, or outside, the old structure rather than reforming of the existing economic structure. Precisely this was the measure of solving the problems in the course of the operations by concentrating the major points on the "fringes" or "margins," pursuing the line of the reform and transition of the structure proceeding in direct unanimity with the movements of the economic system and structure, taking the existing economy to serve as the stabilizing tool of the innate or original body, taking the newly formed economy as the expanding tool for the changed body, and taking a circuitous road to avoid the difficulties in proceeding forward. Enforcement of such a reform strategy on the one hand has attained an enormous development and on the other hand has revealed serious problems.⁶

Beginning in 1983, several times China's reform tried to shift its basic strategy, particularly from 1985 to 1986 and even in 1988. However, here we shall not discuss whether or not at those times there was the full necessity and possibility of carrying out the strategic shift, nor shall we attempt under a supposed precondition to conclude and imagine how different the result would have been from present-day conditions. At present, the problem we are more concerned with is that, since 1985, what achievements have been made and what price was paid in China's economic reform?

Undoubtedly the price that we have paid has been an extremely heavy one. This is true not only on the economic side but also on the social and political sides. The attractive points of the original reform strategy were that it avoided the difficulties and dispersed the risks but what had not been thought of was that the contradictions and problems it brought along could be centralized and burst forth in a very violent form. Naturally, it must be pointed out that the price paid was caused entirely by this sort of reform strategy since part of the price should be attributed to the reform itself and did not evolve from the strategy itself. The pattern now presented by the economic structure and the problems related thereto could have been closely related to this sort of reform strategy but still certain exterior factors might have exerted their force.

Since 1985, the various contradictions, problems, and dangers basically followed the worries and worst predictions of those economists advocating the readjustment and shifting of the strategy to develop step by step. However, many people (including this writer) have neglected or under estimated another side, and this is that in the reverberation of the form of friction, conflict, and crisis, commodity monetary relations could develop at the same time while the wheel of the mechanism's shift did not stop at all. The main reason for this deviation in understanding is that people frequently attached importance to the state's reform measures which were of an initiative, public, and comprehensive

nature and seldom gave attention to the reform progress which was not so public but was scattered, spontaneous, and partial; or they were so much concerned with the passive nature of the measures and thus negated their positive nature.

The price structure's evolution has been symbolic. In 1985, of all the products and services rendered, the prices determined by the market did not exceed 50 percent. The price structure was also not rational. The changes in prices that have occurred since were realized through many channels as follows: 1) Unified and centralized price reform movements in the whole country. For example, in 1986, the prices of seven kinds of industrial consumer goods were decontrolled; in 1986 and 1987 the purchase prices of agricultural products were readjusted, in 1988 the prices of well-known brands of cigarettes and wine were decontrolled, and so on. 2) Readjustment of prices of specialized products scattered and assigned to relevant departments of the central government. If looked at separately, the measures on the specialized products had limited effects but the total number of varieties concerned was rather impressive. For example, in 1986 the prices of over 100 varieties of products were readjusted, including those of newsprint, artificial silk, nonferrous metals, petroleum products, cement, and so forth and the scale of the price readjustment was between 10 to 100 percent. 3) Price reform measures indirectly achieved through reducing the control of the volume and scope of products. In 1986, there was a 22 percent reduction of the contractual purchase tasks of agricultural products throughout the country. This was equivalent to a current corresponding increase in the proportion of transactions in negotiated and market prices. The sustained fall in the quantities of many kinds of energy and raw materials under the unified distribution of the state similarly enlarged their proportions outside the plan. 4) Realizing price readjustment and reform through changes in price power control or method of control. In 1986, the fixed prices of a certain portion of the products were changed to guidance prices (in reality floating prices) and in 1987 and 1988 there was an increase in the number of products under floating prices. In recent years, the control power over the ex-factory prices of certain products was delegated downward. For example, the localities were allowed to fix the temporary prices of a considerable portion of energy and raw materials. 5) Price rises in raw materials comprehended inside the plan. Under the pressure of production enterprises, the state has been compelled to adopt various kinds of accommodation measures, or recognize such accommodation measures, to gradually increase the prices of energy and raw materials which continued to be subjected to the state's unified distribution at fixed prices. For example, in the unified distribution of raw coal, the price of the portion in excess of the contracted delivery base figure was raised 50 percent and on the portion in excess of the progressive-increase plan the price was raised 100 percent. At present, in the unified distribution of raw coal, 73 percent enforced the parity price inside the plan but the so-called parity price

has no longer been fixed or constant since in reality resort has been made to additions to the price in various forms such as adding development fees, maintenance fees, resources fees, and so forth. In the second half of 1989, there appeared the situation of many basic products showing a continued rise in price inside the plan but a continued drop outside the plan. For the year as a whole, means of production under the management of the resources administration system showed a rise of 23.1 percent in prices inside the plan and 18.3 percent in prices outside the plan. 6) In fact, of the industrial finished products, the prices of which were fixed by the state, by far the great majority have no fixed prices. Enterprises producing these products (frequently supported or with the silent consent of the local governments) readjusted and changed the products' prices. Besides, actions of this kind could easily find support from loopholes or provisions in current policies. For example, in the case of products receiving awards, good-quality products would be allowed to increase their prices; "new" variety of products could have their prices fixed anew; once products were shipped to another locality, the "fixed discounts" could be changed to price additions and the products would be allowed to sell at higher prices, and so on. 7) Further extension by coastal special regions in the decontrol of prices. Early in the 1980's, Guangdong Province already began to loosen the control of prices, and toward the middle part of the period market price has occupied the dominant position. Subsequently, this example was followed by other special economic zones, and Hainan and Fujian Provinces, and the proportion of free prices was correspondingly increased. As for the inland provinces and cities, in varying degrees they also exerted their efforts in this direction. 8) More intimate and closer relationship existing between the changes in the price level of products, the prices of which have been decontrolled, and the fluctuations in market supply and demand. Among products outside the plan, the ratio of those adopting complete market prices in their transactions has shown a sustained increase while the local governments' administrative influence on prices outside the plan seems to have steadily decreased. After the macroeconomic tightening, the prices of many processed products have floated downward, while the prices of basic products have risen and although subsequently the prices of certain raw materials have fallen, yet the extent of the fall was small and there was improvement in the price structure.

Aside from prices, after 1985, certain important changes have taken place in other sectors. They principally consisted of: the majority of state-run enterprises have enforced the enterprise profit-retention system and the contracted responsibility system of individual distribution and linking with delivery of profits and taxes; both interest and exchange rates have increased their vitality and flexibility; compensatory use of land and other resources has begun; changes have been made in the wage system, with readjustment made to the wage structure, expansion of the piloting points in housing reform,

and unified planning on retirement and unemployment insurance for staff members and workers in urban state-run and collective enterprises; in the region of finance, relatively great improvement has been made in the capacity of using loans to make up for deficits; reform has been made in the state's investment system and the sinking fund and loans-in-lieu-of- appropriation systems have been enforced; external economic relations have further developed and the ratio of the gross volume of imports and exports in the statistically computed GNP increased from 24 percent in 1985 to 27 percent in 1988; banking finance has further become the principal channel for mobilizing capital funds; residents have assumed the role of being the main body in social accumulations, and in the social gross savings structure residents' savings increased from over 50 percent 1985 to 63 percent in 1988; and the nonstate-owned economy has continued its high-speed development and in industry, for example, its proportion increased from 35 percent in 1985 to 43 percent in 1988. The gross results of these developments were the generation of concrete changes in the economic structure. Hence, when economic improvement and rectification began in the fourth quarter of 1988, the economic operational mechanism was no longer in the 1985 condition.

Our country's current economic structure is one which initially reflects the demands of commodity monetary relations, initially establishes the basic position of the market mechanism and initially forms the decontrolling functions. But it cannot be overlooked that the current economic structure is also one which is full of contradictions, conflicts, and confusion and which is unstandardized and indefinite on many sides.

Undoubtedly, the transitional period is naturally one of the coexistence of both the new and the old structures and, accordingly, it may be called a period of "double structure." Generally speaking, this sort of concrete form of coexistence shows its differences based on the disparities between different regions but in each and every region the factors of the new and old structures can be basically the same, that is, in this region the factors of the two structures can build a unified form. Such a condition exists in China. For example, take bank credit and loans; after several reversals and relapses, at present the central bank, at the same time, adopts the two tactics of controlling the target and regulating the funds; actual practice has shown that at the present stage this is a relatively effective structural form although there do exist contradictions between these two tactics. However, they further reflect another condition in China's special characteristics; this is that, in the same region, the factors of the new and old structures build two mutually opposing systems, the form of the so-called "double-track system." These two structures directly repel each other and are in a wholly conflicting state. Nevertheless, these two structures mutually infiltrate into, and mutually affect, each other. Take for example the "double-track system" of the price of the same kind of means of production: The portion inside the plan and the portion outside the plan

are in a state of extreme opposition. However, the portion outside the plan is not entirely regulated by the market mechanism, actually administrative departments at various levels do exert various kinds of intervention and only one part consists of products marketed at the price truly formed by market supply and demand while, in the case of the portion inside the plan, it is no longer under direct control and tends to increasingly approach the market, and the concrete manifestations are the rise in price in a changed form, lowering of product quality, diminution in the transaction volume, and so forth. Naturally, the passive effects caused by the "double-track" system are different in different regions.

In its transitional form, China's current economic structure has another special feature, and this is the enormous differences between the regions and the industrial departments. In a large country's economy, even though under a relatively mature and perfect structure, certain differences do exist between the regions, but such differences are not strong enough to violate the unity of the gross body of the structure. China's current conditions are exactly the opposite. A certain economic conduct is legal in A territory, is semi-legal in B territory but wholly illegal in C territory. The losses, wastages, and dangers caused by regional differences on various sides such as prices form, investment limit, operational form, foreign exchange retention, and so forth are extremely frightening. In any country, differences do exist in the industrial departments because the natural and technological conditions in production and circulation of different departments are different, their investment turnover periods are different and, as a result, their management systems can also be different. In countries with market economies, the fundamental difference is formed by mainly depending on the degree of competition or of natural monopoly. But in China, the structural differences between the industrial departments far exceed the scope determined by these rational factors. Perhaps seen from each and every side, there is reason for permitting or enforcing a differential system, to attempt to accommodate the industry or trade or to manifest the state's industrial policy, but since all the sides are not unified or standardized, the sum total is that their rational features offset each other even to the extent of their vanishing completely.

Conversion from a traditional centralized and mandatory structure to a normal commodity economic structure in fact involves a procedure of the continuous separation between the independent macroeconomic and microeconomic mechanisms since, in the past, these two mechanisms were two in one. China's special characteristics are that, on the one hand, a new type of macroeconomic structure (for example, formation of the central bank) is established to delegate power and cede interests to the enterprises and, on the other hand, there currently appears a parallel procedure which is the strengthening of an intermediate body and the generating of a "central economic mechanism," that is, the intermediate administrative coordinating mechanism of

government departments at various levels through such systems as financial contracting, foreign trade contracting, industry and trade contracting, and enterprise contracting. Undoubtedly, this intermediate body bears definite macroeconomic functions and also centralizes a portion of the power and functions originally belonging to the enterprises and the market. Essentially speaking, this intermediate body expels and rejects the state's macroeconomic control and also expels and rejects the unified market mechanism and the independent enterprise operational mechanism. Its conduct form is like that of a centralized planned management organ and also like that of a market main body which does price haggling. This intermediate body is subjected to restrictions from two sides: 1) if central macroeconomic regulation and control endeavors to maintain its unified nature and effective nature it is bound to come into conflict with the conduct of the intermediate body; and 2) with the formation of the collective independent interest mechanism of the enterprises and their staff members and workers and the gradual expansion of market competition, inevitably the enterprises will, through "negotiations" and the market, seek to obtain from the intermediate body all advantageous conditions and resist and reject the disadvantageous intervention from the intermediate body. Precisely because of these two factors, China's indirect administrative coordinating mechanism up to now has not yet risen to the leading position.⁷ However, its passive effects (market blockading, redundant construction, structural sameness, confusion in order, and corruption of a portion of the officials) have been fully exposed and there is the possibility of their further expansion.

Corresponding to the above-mentioned condition of the structure in several respects, the enterprises' operational mechanism and conduct form are full of contradictions and exceedingly complex. The enterprises' (particularly the state-run ones) participation in market competition has been mainly passive and it may be said that, among the state-run enterprises, in their capacity as independent commodity producers, a unified mechanism for autonomous operation, being solely responsible for their own profits and losses and making self-development has not yet been formed and that, among all the collective enterprises and town and township enterprises, their internal mechanism is in an extremely unhealthy and imperfect state. The short-term acts of the enterprises (particularly the state-run enterprises) and the inflationary tendency of the staff members' and workers' income are the most principal manifestations. The preventive measure of "two assurances and one linking" has not displayed its anticipated functions and the enterprises enforcing the linking of wage increase with upward delivery of profits and taxes have all exceeded their original coefficient targets. More importantly, the current erosion has reached the confines of the special sinking funds of the enterprises' retentions (sinking funds for depreciation, overhauling, and technical development). This has formed a serious and secret menace to the economic structure and national economy.

Summing up the above, despite that the existing economic structure has set up the role of market orientation, yet the structure's foundation is still very flimsy and weak. Such an economic structure cannot be stable. The problem is only toward what direction and how it will be shifted.

Will There Again Be a "Golden Stage" in the Reform and Development?

At the moment, the whole foundation and conditions confronting China's economic reform and development possess a contradictory character, on the one hand, showing unlimited hopes and anticipations and, on the other hand, embracing an enormous danger. The opposition between these two sides has reached an unprecedentedly precipitous degree and it may not be too exaggerative to say: to advance a step, China's modernization will meet with bright and prosperous prospects; but to retreat a step, the Chinese people will once more fall back behind the dark shade of backwardness and weakness.

In the 1980's, the average annual growth rate of China's GNP reached the highest level of the international society during the same period, being 9.2 percent.⁸ If, in the 1990's, a more or less the same growth rate can be achieved, then China's economy will have straddled the most difficult stage in modernization and will safely enter the stage of going after and exceeding the developed countries.

Improving the efficiency rate in resources allocation is the fundamental prerequisite. That in the 1980's the country was able to achieve the best growth rate since the Republic's founding was because the production rate of the end products were relatively improved as well as the efficiency rate in the allocation of resources was rather greatly increased.⁹ Its rise naturally implies a fall in profits and taxes but does not necessarily imply a fall in national income. Even the adoption of the "net output value" index also involves a problem because currently a considerable portion of the individual income is mixed into "intermediate consumption," that is material cost of production. The most rational index should be the production rate of all essential elements or capital output rate, but in the accounting of our country's national economy, in the statistics of the GNP there are serious omissions (such as underground economy) and insufficient estimation (such as housing services). Hence an under-estimation is possible. Nevertheless, in spite of this, according to the studies separately made by two noted American scholars on China's economic problems who basically used China's statistical data in their work, since the reform the output rate of China's all essential elements of production has gone up.¹⁰ However, it cannot be denied that during this period many problems, such as seriously redundant construction, redundant introduction, the small edging out the big, the second-rate goods edging out goods of best quality, and so forth

existed. The losses thus involved could run to unprecedentedly high absolute figures. How should such problems be treated? Some people have covered the topic with the conviction that the principal guilty party was the market mechanism. Such a view seemed to be correct, but actually was not so. Under the commodity economy system, the market mechanism is a measure that can produce the minimum cost of production and the best results in the rational allocation of resources and can precisely avoid such wastes and losses. This can be proven by the actual experience of many countries. Other people have raised the view that a matured market mechanism would not produce problems of this kind, but that China's market mechanism could not mature so rapidly and that, hence, its planning should be further enhanced. Such a view is reasonable, because it provides the possibility for a concrete analysis of the problem. Since the key lies in the market mechanism being imperfect, then it is necessary to mark out the points of imperfection caused by the system not being healthy enough and the rules not being exactly clear, the points caused by man-made hindrances or delay despite possession of the necessary conditions, the points of imperfection caused by the lack of the necessary conditions, the points of imperfection caused basically by regulation by market mechanism not being suited to the case but having been erroneously resorted to (such as party or government organs engaging in business to create income to meet insufficient expenses funds), and so on. If research is thus conducted, then it will not be difficult to find out the direction of the efforts from now on. On the other hand, regarding planning, making a concrete analysis is similarly required. If it is said that we must strengthen guidance by planning, then what kind of planning guidance is best suited to the needs of the current stage of the development of the commodity economy? If it is mere resumption of the past kind of mandatory planning then it will be definitely erroneous. This is because the experiences of the past 30 years proved that that kind of planning, except for special periods, could not ensure the rational allocation of the resources, the rate of loss and waste would be much higher and would be all the more so with the economy becoming more complex. At the same time, a partial resumption would only aggravate the role of the "double track" system repelling a nonunanimous body, the risk and damage would be much greater and as a matter of fact all these years we already have suffered enough. The kind of planning we need is one which, in the regions of economic activities which temporarily, or forever, do not possess the condition for market coordination, the government plays a leading, guiding, and intervening role which can be connected with market coordination, reflects the objective demands of the market mechanism, can make the market mechanism continuously cultivated to attain perfection and does not damage or restrict the market mechanism's growth to maturity.

Further developing and perfecting the market mechanism and correspondingly transforming the planning mechanism consist of the only correct direction for the

reform from now on, and also the only way out for the medium and low term development of China's economy. If this is to be shown by the concept of power centralization and power separation, then what is needed to centralize is the tactic of the macroeconomic control policy and system and not the centralization of the distribution of materials, foreign exchange and funds while the latter precisely needs to be further shifted to the market. Under this precondition, shifting of the reform strategy must be enforced.

Reform in the recent and medium period can fully accomplish the following: establishment of a united commodity market; formation of a basically unified domestic and external foreign exchange market; establishment of capital, labor, and land-use markets all of which are subject to standardized control; and establishment of a macroeconomic regulation and control system and supervisory system basically suited to the demands of commodity economy. Although we should firmly desist from adventurism in reform, yet the main problem now seems to be that reform has lagged behind the demands and possibility of actual economic life.¹¹

If it is claimed that in the next two to three years the establishment of a developed security market deviates from reality, then to say that in the next two to three years it will be impossible to establish a basically unified commodity market similarly deviates from reality. Judging from the conditions on various sides, the reform measures which already possess the conditions for implementation consist of at least the following: 1) Basic elimination of price control over consumer goods and the large-scale reduction or removal of the "double track" price disparity in the means of production; 2) Formation of capital investment and merging system of a policy nature and separation of currency of a policy nature and currency of a commercial nature; 3) Establishment of a unified social insurance system and reform of the welfare system; 4) Clarification of the representative of ownership rights in state-owned enterprises, coordinating social insurance reform with the combination and merging of enterprises, and in separate periods and separate batches implementing a regulated stock and share system; 5) Unification of the income tax forms, lowering the income tax rate and separating the flow of taxes and profits; and 6) Abolishing the financial contracting system and overall pushing the tax division system. Naturally, on these various sides there are mutual and reciprocal effects and how to formulate a concrete program will require a careful study.

Most importantly, it is necessary to know how, in the reform process, to ensure the national economy concurrently to continuously obtain the motive power to grow and to maintain suitable growth and reform environments; on the one hand, not to sacrifice reform for the sake of short-term development and, on the other hand, not to sacrifice development because of the reform. Hence it is especially necessary to study the following problems:

First, how to reduce the pressure of currency inflation and how to maintain the stability of the gross volume relations.

The experiences and lessons in recent years have told us that a lax credit and loan and financial policy to support development speed involves the payment of an extremely heavy price. The reform measure of frontally avoiding price reform but implementing a large-scale division of economic decision-making power can increase the pressure of currency inflation. The basic causes for the appearance in 1988 of the serious situation of currency inflation were: shifting the direction of the "double-tightening policy," the simultaneous pushing forward of a new round of financial contracting, and the universal implementation of enterprise contracting and foreign trade contracting, and the start of the coastal development strategy with both supply and demand being activated increasingly by price inflation.¹² For a period of time, some economists believed that reform could not be pursued in an environment of laxity in the gross volumes and that tightening was not necessary or possible. Thus, selection of price reform could only be made either by dragging on or at the aggravation of the currency inflation. The actual practice in improvement and rectification has shown that control of the general level of prices is possible and is also necessary when seen from the demands of development and reform. But the target and intensity of the control must be suited to the actual demand. The over-lowering of the economic growth rate since last year can, to a large extent, be due to the existence of deviation in the guideline of depressing fixed assets investments. As a matter of fact, since 1986 the growth rate of fixed assets investments (after deduction of price factors) has already slowed down and has already reached equilibrium with domestic gross savings. Improvement and rectification should take as the principal objective readjustment of the investment structure and not depression of the gross volume.

Summing up the experiences and lessons of these two years, it is necessary on the one hand to firmly insist on the guideline of the cautious control of the gross volume and, on the other hand, with the prerequisite of there being also adequate savings, to maintain a rational scale of fixed assets investments and simultaneously cut down as far as possible loans for circulation funds and reduce the scale of newly increased stock or reserves.¹³ In fact, we have advantages which are not easily available. In recent years, the gross savings rate and residents' savings rate have shown a rising tendency. If we pursue further the adoption of a guideline encouraging savings, investment will find a much larger source of funds and, if a safe and regulated financial form is used to raise a large amount of long-term investment, the outcome will be further consolidating savings and there will be no inflation of consumption demand.¹⁴ Jiang Shuojie, a noted economist known to have made outstanding contributions to Taiwan's economic leap-forward wrote thus: "In the early period after the war, certain Keynesian economists believed that increasing investment in any form

would aggravate currency inflation and that raising the interest rate on loans would increase the cost of production, causing a rise in commodity prices. In our opinion, the important point does not lie in the interest rate but in the source of the funds. If the funds come from expanding the issuance volume of banknotes, then the loan activities will promote currency inflation; whereas, if the funds consist of investments from savings, accumulated material resources, precious metals, or foreign exchange... then seen from the long run, the role of checking currency inflation will be generated."¹⁵ In a macroeconomically stable environment, it is necessary to speed up the process of initiatively readjusting and loosening the prices of the "short-line" products, otherwise, once the spontaneous price-rise pressure is let loose through various hidden and circuitous channels, shifting of the demand structure will be impeded and inevitably currency inflation will be set in motion. Regretfully, after the tightening this time, the steps taken in price reform have fallen far behind actual possibilities.

Second, in the course of the reform how to concurrently carry out a forceful readjustment of the structure.

At present, the problem of our country's industrial structure is closely related to the system of organization and readjustment of the structure, which is the prerequisite of the sustained, stable, and coordinated development of our country's economy. These two points are the common knowledge of economic circles. But the majority of people are not at all optimistic about readjusting the structure. Among the people believing in the market's role, their basis for not being optimistic is: at present the prices are distorted and movement of the stock volume is obstructed. People who have faith in the strength of planning believe that to readjust the structure the state must have in its hands much money and materials. And there is also a common basis: at the moment stability is of overall importance and it is not possible to make vast changes of the structure.

The "bottle neck" problem of the basic industries is the major problem of the structure at the moment. In this connection, the readjustment of the structure and whether or not the stock volume can move smoothly are minor matters. The problem can only be solved by relying on increasing or readjusting the volume. Price distortion is an unfavorable factor yet, although within a short period the prices are put in order, there is still no assurance that investment in the basic industries can be increased. Seen from the capital capability of the entire society, we have the conditions for increasing, on a large scale, investments on the basic departments. In 1989, the gross savings of the national economy reached over 560 billion yuan, of which over 160 billion yuan consisted of newly increased treasury reserves. Hence, the key to the problem is to smooth out the transitional mechanism between savings and basic investments. At present, in our country, the conditions for raising funds are better by many times than the developed countries in the initial period of their industrialization and the post-war period of recovery. not to make full use of the savings funds we

are literally begging for rice with a "golden bowl." However, it will not do to adopt the policy of the state directly centralizing a large amount of financial and material power, because: 1) facts show that, in the case of the state making a noncompensatory transfer and requisition of funds and materials, the investment effects are very poor; this is a problem of rationality; 2) seen from the question of possibility, with the present interest relations being basically clear and clarified, it is rather difficult to centralize a considerably large amount of funds and materials; 3) even though financial revenues can be increased by two to three billion yuan, if the present expenditure system is not changed, quite possibly the increased amount may be eaten up by ordinary expenditures (particularly subsidies). The correct selection should be: on the one hand, speed up the steps in price readjustment and reform and, on the other hand, resort principally to the methods of "policy finance," such as, for example, raising the planned proportion of investment loans by the basic departments in the banks' loan commitment, allowing certain important industries and trades and enterprises to directly issue and float debentures, expanding the flotation scale of the basic construction debentures in state finance; in national finance reducing construction appropriations and increasing interest-bearing sinking funds so as to attract credit and loan national economy and there is no possibility of a collapse. In the course of this procedure, at the same time reform the social insurance and postal savings systems, prepare the separation of banks of a policy nature and banks of a commercial nature, and gradually form a more stable and better regulated fund-investing and merging system of a policy nature.

The reason why we should have confidence in these measures of structure readjustment may be described as follows: 1) our country's economy is currently in the stage of growth, the internal structural capacity of its industries is large, and generally speaking, there are absolutely no surplus industries or trades and no industries that are fading out or on the decline; 2) even though it happens that, in the process of readjusting the internal structure of certain industries and trades and the organization structure of the enterprises, it becomes necessary to transfer outward a portion of the workers or assets in stocks or reserves, tertiary industry, which urgently requires great development, can provide an enormous absorbing force, though necessarily involving certain planning and organizational work; 3) our national economy is fully capable of establishing an employment insurance system which basically can fulfill the needs; and 4) In our country's economic life, market mechanism has already occupied a basic position; structural readjustment, in reality, has already produced many results. For example, originally there were over 3,000 plants manufacturing electric fans, but the number has been reduced to only 200 without any serious passive consequences. These experiences are well worth summing up and propagating.

Third, in the course of the reform, how to simultaneously solve the problems of confusion in order, unjust distribution, and corruption?

Since the improvement and rectification, the degree of urgency of these problems seems to have eased somewhat. Generally speaking there are three causes: 1) Strengthened control has stopped up certain loopholes; for example, there has been a large-scale increase in the collection of taxes from the individual household; 2) the rectification atmosphere has imposed a certain degree of pressure on the illegal elements and their illegal acts and forced them to restrain or shift to undercover work; and 3) economic depression, corresponding reduction in the opportunities for speculation, rise in cost of production, and fall in benefits. Among these causes, possibly the latter two are the principal ones. But it must be clearly that: the deep-lying systematic cause for these passive phenomena is the "double-track" and "dual" systems, and if the problem of the unification of the systems is not settled there is much fertile ground for the breeding of passive phenomena of this kind. Although rectification, closing, and amalgamation have removed a large number of companies, there has been no change at all in the basic conditions of earning "differential rent" or nonproduction profits. On the other hand, many defects and loopholes still persist in the management and operational strata and many problems which should have been settled at present are still pending, such as the provisions for the renewed examination of the shares of operation of various kinds of companies in accordance with their operational ability and conditions and based on the state's relevant policies, severe punishment of the criminal elements after expiry of the date set by the "two high" proclamation, and so on.

However, not to handle well the relations between the reform and establishment of a new order for commodity economy and not to rectify the state of affairs of the rampant expansion of the various kinds of passive phenomena, would then bring about serious damages to reform and development from now on. The policies that should be adopted are: 1) Step up reform of the structure and the procedure of unification and standardization, strive for the abolition of the double-track price system as soon as possible, put in order the relations of wages and welfare benefits, publicize, in dollars and cents, the individual's income. 2) In cooperation with reform of the housing system, make clear in an overall manner the building cost of private residences of government servants and the sources of the money and clearly demarcate the ownership right relations; start the collection of the income tax on the individual's income and in the first scrutiny of the income reports require government officials above a certain rank to openly declare their private properties. Those properties found to have improper sources should be confiscated. 3) Continue to improve the economic legislation system; continue to raise the business level of the departments of economic control, supervision, and execution; and, rely on the masses and news media to sternly handle various kinds

of illegal activities. Only by so doing will it be possible to gradually reduce, from now on, and in the course of the reform, the instances of confusion in order, unjust distribution, and corruptive activities and not to allow them to continue to grow.

The above is an analysis of the present condition of, and the way out for, our country's economic structure reform. This article is written entirely from the economic angle. However, economic reform is not purely an economic problem. A most important relevant factor is social and political stability. Despite that, in it there are exomplex relations and innumerable variables, the writer, along with many economists, shares the conclusion that undoubtedly only in deepening the reform will there be an effective maintenance and development of stability.

Footnotes

1. Naturally people can list scores of products whose supply has lagged behind demand; but this does not alter at all the pattern as a whole since during economic depression periods in Western developed countries instances of this kind could also be found.

2. In recent years, the quality, variety, and style of our country's consumer goods have made fast progress; in the past when the quality was poor no market weakness had appeared, but under the conditions of improved quality of products market weakness did appear. This obviously demonstrated that quality was not the problem.

3. See my article "Consumption, Investment, and Savings," JINGJI YANGJIU No 4, 1990. Our country's current systems of statistics and national income accounting have not yet incorporated the savings indices; the national income accumulation rate is more or less near to the savings rate. But the limited character of the former is that it does not take the GNP as the fixed basis, does not include the production and use of the services trade, and does not reflect the scale and proportion of investment depreciation; hence under the conditions of the rapid development of tertiary industry and the constant increase in the depreciation amount, the discrepancy between the national income accumulation rate and the gross savings rate of the GNP grows increasingly. Under the conditions of the sharp fall of 20 percent in fixed assets investments (including price factor

4. So-called "resource limitations" refer to a total or general economic feature, different from "bottleneck restrictions"; the latter refer to one or more departments lagging behind economic development and belong to a partial or structural economic feature.

5. This does not mean to say that direct control is no longer important, because with indirect control still being immature it is necessary to reserve a little necessary direct control. Without certain direct control, the current indirect control cannot have played such a role.

For example, credit and loan constitute indirect control in economic regulation but the state's plan of the credit and loan scale is direct control over the banking and financial structure.

6. These problems mainly consisted of currency inflation, unjust distribution, increased phenomena of corruption, too-rapid development of the processing industry in the industrial structure, redundancy and uneconomic scale in investment, and so forth. In short, all the problems leading to and forcing the adoption of the subsequent improvement and rectification measures appeared at that time.

7. At the time of the enforcement of the contracting system in 1987, many economists were worried that the contracting system would lead to the generalization and expansion of indirect administrative coordination. Subsequent conditions worked out better than anticipated. But this problem is still a serious one. Falling into the mire of indirect administrative coordination is still a realistic danger. Over the past year and more, administrative companies of various kinds of specialized departments have reappeared. The situation worries people

8. According to the World Bank's estimate, it could be over 10 percent, but even according to our current statistics, this 10 years' average growth rate has been rarely seen.

9. Among our country's economic circles, use of the concept "economic effect" generally refers to profit realization or upward delivery of profits and taxes. This cannot reflect the efficiency rate of the entire national economy because workers' remuneration similarly is a constituent part of the national income (GNP).

10. See D. Perkins, "Reforming China's Economic System," JOURNAL OF ECONOMIC LITERATURE, Vol 26, No 2 1988; R.F. Dersberger and R.S. Eckeus, "Financing Asian Development," and "China and India," University Press of America, P 65.

11. In summing up the lessons learned through these years, many people have agreed to the following presentation: that the main cause for the appearance of so many problems is the wish to achieve quick results in development and reform. The writer is of the opinion that this is not entirely correct. So far as reform is concerned, the main problem is that there have been errors in the arrangements of the steps and that coordination of the various measures has been relatively poor. We cannot say in general terms whether progress has been fast or slow. As a matter of fact, be it in price, enterprise, or currency reform, many things that should have been done have not been done.

12. In currency inflation, the acts of anticipation and "crash buying" by the residents are derivative phenomena or intermediate causes. As a matter of fact, in March and April of the year' price increases had already

appeared in some provinces and cities which was followed by "crash buying." In May and June, the "gate-crashing the price reform" aggravated the situation like adding fuel to a fire.

13. The building principle of "production first, construction second" and the credit and loan condition of encouraging short-term loans and not encouraging long-term loans seem to be unsuited to the demand of today's commodity economy. The entire economic work should establish the following new principle: Depress as far as possible the growth rate of stock or reserves, do not encourage the enterprises' excessive holding up of the circulation funds; the planned scale of fixed assets investment loans should not take as the absolute limit the increase volume of three years' deposits but should take as the absolute limit the whole of the newly increased deposits (of course there should be a margin left).

14. See "Interest Rate, Exchange Rate, and Taiwan's Economic Development," KEJI DAO BAO, August 1980

15. Many people are concerned that these methods may lead to problems in the gross volume. But within the scale of gross savings, all these methods will not bring malignant results. In particular, it is necessary to renovate the concept of domestic debts. So long as the issuance of domestic loans is not based on the support of a large issuance of banknotes in excess of economic needs, then, irrespective of the size of the loans, no currency inflation will be brought along. Internal debt is the state representing society to borrow from society itself; in reality it is borne by the whole national economy and there is no possibility of a collapse. Naturally, we must avoid using the loan receipts to expand the government's ordinary expenditures.

Economic Director Discusses Price Reform

*HK1102074191 Beijing JINGJI CANKAO in Chinese
21 Nov 90 p 4*

[Article by Wang Jiye, Director of the Institute of Economy of the State Planning Commission: "Orient Reform Toward a Structural Readjustment"]

[Text] Generally speaking, the first phase of economic improvement and rectification, whose main purpose is to stabilize commodity prices and eventually to stabilize the economic situation, has basically been finished. However, the underlying contradictions that led to an imbalance between total supply and demand have not been eliminated once and for all. For two consecutive years, we have mainly depended on administrative means as well as considerable increases in financial subsidies to secure the steady lowering of increasing commodity prices. By alleviating the imbalance between total supply and demand, we have increased financial expenditure considerably. With the lowering of every percentage point in the commodity price index, we had to pay enormous subsidies; and to relieve ourselves of

the heavy burden of providing financial subsidies, we were forced to readjust the prices of agricultural and sideline products and other basic industrial products. If the prices are raised too high in too short a time, there is the danger of triggering off new inflation. In the face of the two alternatives, which were difficult to choose between, we finally found the way out by further deepening reform. While using necessary administrative means, we depended more on economic methods to continue with economic improvement and rectification and to fight inflation and resolve financial difficulties at the same time.

The underlying reason for the financial difficulties is the existence of unreasonable industrial setups and economic mechanisms, which has eventually led to low economic returns. For example, the industries and professions whose development is vigorously supported by the state are exactly the sectors turning out low-priced products earning relatively low economic returns. Capital input and subsidies used to stabilize commodity prices and compensate for losses are becoming more and more a burden and we cannot continue this by using administrative methods. The way to eradicate financial difficulties is firstly to promote readjustment of the industrial setup. This is a major difficult problem that has to be resolved during the new phase of economic improvement and rectification.

For many years, we have always insistently aimed at rationalizing the industrial setup but have not made any substantial progress after all. During the period of economic improvement and rectification, the goal for the readjustment of the industrial setup is limited. In other words, we will readjust those aspects that must be readjusted so that agriculture, basic industries, and basic facilities can really be strengthened, and that uncoordinated relations between agriculture and industry and between basic industries and processing industries can be ameliorated. Here the most important thing is for us to be certain about the guiding thought for the readjustment of the industrial setup: Should we resolve the series of contradictions and difficulties in China's industrial setup through extensive modes or intensive means? The former mainly refers to focussing merely on the increase of capital input to reduce the gap between supply and demand among industries. During the Eighth Five-Year Plan, capital for construction is limited and it is not possible to increase funds available too much for investment in basic industries, especially agriculture and energy and raw material industries. Therefore, if we use this method we may cause a relatively big problem in the industrial setup. The latter mainly refers to enhancing appropriately the reorganization and transformation of basic industries, to reduce consumption, alleviate the supply pressure of basic industries, increase the quality and results of industries as a whole. This method corresponds to China's basic national conditions and to the objective law of change in the industrial setup.

In order to promote effectively the readjustment of the industrial setup, we must expand the extent of reform

and carry out reform in such a way that the structure can be readjusted. In addition to using necessary administrative means, we should mainly use economic mechanisms. These kinds of mechanisms can be many—the more important ones are price and distribution mechanisms. To implement correct industrial policies, it is also necessary to take full advantage of economic mechanisms.

As far as price mechanisms are concerned, on the one hand, we can regulate the supply-demand situation by price fluctuation and, on the other, reasonable prices are an important lever for promoting the readjustment of the industrial setup. The current price structure is very reasonable and the price mechanism is seriously distorted. It neither reflects the changes in supply-demand relations nor the law of value, nor is it favorable to the effective readjustment of the industrial setup. Therefore, it is quite necessary to carry out price reform. The point is how we shall start carrying out price reform and what the extent of the reform will be during the period of economic improvement and rectification and during the Eighth Five-Year Plan. Limited by the goal of economic improvement and rectification, under the fixed or planned increase rates of commodity prices and under the possible circumstances, we can carry out reform either through relaxing price control, through planned price readjustment, or through both of these two measures. In light of China's actual situation, even within the fixed increase range of commodity prices, there will still be some risk if we relax price controls and prices will often exceed the fixed level if driven by changes in the supply-demand relations. It is also difficult for us to obtain good results to carry out price reform by totally depending on planned readjustment. Since the links among industries, among enterprises, and among products are, after all, complicated, it is very difficult to make planned price readjustments in an all-round way. If we persist in doing this, it will be difficult for prices to reflect the law of value and the changes in supply-demand relations. Therefore, in carrying out price reform during the period of economic improvement and rectification, we should integrate the principle of planned readjustment and partial relaxation. For those things, such as important means of production and daily necessities, whose long-term supply-demand situation can be seen more clearly, we can readjust their prices in a planned way to alleviate the supply-demand contradiction, make the price levels and comparative-price relations more reasonable, and strive to establish a price mechanism that is favorable to rationalizing the industrial setup. For products, especially textiles and other light industrial products and daily consumer goods, whose bulk supply-demand relations are relatively complicated and whose short-term supply and demand change very frequently, we can further relax price controls and promote through market competition the maintenance of a rough balance in supply-demand relations.

On the whole, under the fixed inflation-curbing goal, the bigger the proportion of price control relaxation and of

voluntary increases, the less room will there be for planned price readjustment, that is, for price readjustment. Therefore, we should strive to keep voluntary increases within a smaller proportion so that we can leave more room for price readjustment, because the task of readjusting prices of important means of production is very important.

Can we imagine what will happen if we do not readjust prices of important means of production while relaxing their price control? Judging by the supply-demand situation at the present time and for some time to come, China's economy will still be limited by resources and there is still a large gap between its ability to supply important means of production and their demand. Shortages will become particularly obvious in an overheated economy, especially during the period processing industries are quickly expanding. Even if economic growth rates lower and eventually remain at an appropriate level, supplies of important means of production will not be abundant. Relaxing price controls at a time when supply and demand are obviously unbalanced may cause great fluctuations in commodity prices and will be unfavorable to the curbing of inflation because most of these products are high-quality products and because it is difficult to control and regulate their chain effects.

According to China's experience, the prerequisites for relaxing price controls are: A time when there is a rough balance between supply and demand; when the ability of all sides, including finance, enterprises, and residents, to endure fluctuations in commodity prices is fortified; and when relaxation of price controls is favorable to the formation of a reasonable price mechanism. Without these prerequisites, relaxing price controls will bring drastic increases in the general price level and will make it difficult to bring about reasonable comparative-price relations, will make the distribution relations more unreasonable and bring a recovery of comparative prices when the prices are high. Despite the fact that we have paid the huge price of price increases and financial subsidies, we have not obtained a reasonable price mechanism. In view of historical experience, in carrying out price reform, we should look back and ahead and make general arrangements. When there are conditions for relaxing price control, we should definitely do so. When price control needs to be relaxed but there are not sufficient conditions, we should create the conditions. When price control cannot be relaxed in a long time to come, we should readjust prices step by step in keeping with changes in supply-demand relations and with the law of value. Therefore, we cannot appraise the reform process simply by the extent of relaxation on price control. The result of reform should be judged ultimately on its function to the development of productive forces in society.

As far as distribution mechanisms are concerned, the first is the distribution of productive factors. Readjustment of the industrial setup is in essence the redistribution and recombination of productive factors. This is also true of the readjustment of the stock volume and

increase volume. The industrial setup can be improved through various forms of flow of productive factors from enterprises, professions, and industries that earn low profits to those that earn good profits and to sectors that have not earned good profits in recent years due to the influence of policies and structures but are badly needed for the long-term development of the national economy. During the period of economic improvement and rectification, for those enterprises which consume too much capital and whose product quality and sales are poor, we should take resolute measures, namely shutting them down, suspending their operations, amalgamating them with other enterprises, or switching them to the manufacture of other products. The capital acquired as a result of the above resolute measures can be used to strengthen the development of basic industries. At present, for the sake of political and economic stability, we can shut down and suspend the operations of as few as possible of the above enterprises while amalgamating as many as possible of them with other enterprises or switching them to the manufacture of other products. However, by amalgamation and switching lines of production, we must not allow underdeveloped enterprises to share the benefits of developed enterprises, otherwise it will mean passing on the contradictions in the readjustment of the industrial setup to developed enterprises or enterprise groups, thus protecting underdeveloped enterprises in a new way. The resolute measures for underdeveloped enterprises are aimed at redistributing their productive factors. They are a great readjustment to the interest pattern and will inevitably meet resistance from relevant authorities. The focus of contradiction is that those that should be readjusted cannot be readjusted and those that should be developed lack the necessary financial support. If we maintain the current interest pattern, it will be impossible to readjust the industrial setup. Moreover, if the readjustment is delayed, it will become more passive.

Another aspect of the distribution mechanism is that in the national-income distribution pattern there have been changes in recent years that are unfavorable to the readjustment of the industrial setup. It follows that individuals, local authorities, and people-owned enterprises have too much a share in income distribution with the result that the state's finances, especially the central authorities' finances, have difficulty in collecting sufficient funds for the readjustment of the industrial setup. In order to promote the readjustment of the industrial setup, we must readjust the national-income distribution pattern and should focus on the readjustment of the preliminary national-economy distribution pattern to ensure that the state will obtain necessary funds to keep up with the development of production and to meet the needs of readjustment of the industrial setup.

Judging from the above, reforming the unreasonable prices and readjusting the national-income distribution pattern are necessary conditions for promoting the readjustment of the industrial setup and are the main difficulties prior to alleviating underlying contradictions.

The effective readjustment of the industrial setup also depends on the appropriate implementation of industrial policies. China's industrial policies at the present stage stress strengthening the development of basic industries and basic facilities, including agriculture, energy, and raw material industries. On the other hand, we should energetically strengthen the transformation of processing industries. These two aspects support each other. We must not focus on the development of basic industries without controlling the excessively quick growth of processing industries, neither should we focus on controlling the scale and growth rates of processing industries without transforming them. Moreover, in promoting technological transformation, we must reorganize processing industries. Making technological transformations under the condition that fund distribution is highly decentralized and enterprises' scale and returns are poor, the limited funds for technological transformation will be scattered. Moreover, it will be impossible to resolve the question of repeating the process of production, development, and import. In view of this, we must carry out technological transformation in major points, and reorganize processing industries through organizing various types of enterprise groups. Under this prerequisite, we should promote technological transformation, especially the technological transformation of equipment-manufacturing industries so as to bring about the technological transformation of all processing industries and form a planned and systematic shift of technological transformation. It is not difficult to understand that in order to realize the above goal of readjusting the industrial setup, we need to depend on reform, and use reform to promote the readjustment of the product mix, enterprise organization structure, and industrial setup, and organically integrate the deepening of reform and economic improvement and rectification.

Journal Views Property Rights

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[Article by Song Yangyan (1345 7402 8827), from the Chinese Academy of Social Sciences Economic Research Institute, edited by Lu Wen (7120 2429), written in September 1990: "On the Relationship Between Property Interests Constraints and the Improvement of Economic Performance"]

I

[Text] Marx pointed out: "Every economic relationship in society is first manifested as interests,"¹ and "everything for which people strive through struggle is related to their interests."² Under different social systems, or between the owners of different means of production or different producers under the same social systems, there are manifested, without exception, various different interest relationships. Lenin, when summing up the experiences and lessons in socialist construction following the October Revolution, pointed out: "Every important branch of the economy must be built on the principle of personal incentive," because otherwise "at every step we will suffer."³ We can see that concern for

and rational pursuit of interests is also, under the socialist system, the basic motivation and impetus for the development of all economic units and enterprises (including whole-people ownership enterprises) and for bringing into play the enthusiasm of all laborers for labor.

Interests naturally refers to economic or material interests. In accordance with the basic internal components of material interests, we can divide material interests into two major components or levels—consumption interests and property interests. In the end, people's material interests are all consumption interests obtained in order to satisfy the needs of consumption. However, the attaining of consumption interests and their degree of satisfaction always has the existence and growth of property interests as a precondition.

Property interests in turn include three aspects: First, property use interests. The source of people's economic interests lies in the production of material goods, while the production of material goods must have, as a precondition, a certain form and certain degree of property use. In any situation, as the forms and degrees of the use of the means of production differ, the influence on the production of material goods and their degree of effectiveness also vary. Second, property growth interests. In any developing society, property, as a manifestation of real wealth, is not static and unchanging. Driven by the will of its owners and operators, it is always subject to growth through accumulation. Only through growth can the property interests of the owners and operators be more fully realized and can they thereby gradually become prosperous or more prosperous. If the owners and operators are the state, representing social interests, the state and society will be enriched. Third, property rights earnings. Property rights are the legal manifestation of property relations. This is a legal measure used to give firm form to property ownership, to restrict the possession and use of assets, and to maintain a certain economic order. Property rights earnings, in the narrow sense, refers to the benefits which the property owner obtains on the basis of his property ownership rights. In concrete form, this refers to rent, interest, and dividends.

The specific manifestations of the three aspects of property interests can be mutually promoting and mutually transforming. Property rights income depends upon earnings from property use and property growth. If there is not effective property use and growth the existence of property rights will be without real significance and no earnings will be forthcoming from them. At the same time, property income can, through certain forms, be changed into accumulation and, in the process of effective use, promote the further growth of assets. Thus the three aspects form an integral entity linked in a process of mutual promotion and transformation. Not only does this ensure their own development and improvement but, more importantly, it results in property interests continually developing and strengthening as they move towards a higher level, following their own operational orbit.

To sum up, regardless of whether or not they are use interests, growth interests, or property rights earnings, property interests, in the end, always involve the property's principal, that is the property owner, trying to obtain the greatest possible interests in the operational process of property relations. The reason property interests are important can be seen when they are compared with consumption interests. Consumption interests are short-term temporary interests. This is because with all consumption, when the consumption process is completed, the consumption interests are also finished and cannot be regenerated. Property interests are different. Property interests can, through their own special regenerative function, achieve self-multiplication and expansion. They can thereby allow the owner or operator to obtain more economic, or material, interests. This includes the expanded consumption interests which can be used for consumption. Thus, property interests belong to material interests which are, in their nature, of a higher level and more long range. They are the material base of all the economic interests of mankind.

II.

Seen from the microeconomic and medieconomic views, property interests are also a strong motivational force for any production sector or any enterprise development in socialist society. If, in the operational activities of some production departments and enterprises, the property owners and operators, including property managers and producers, have a low, or even very low, level of concern for property interests, that is, they are unconcerned about the effective use, accumulation, and growth of property, and do not concern themselves much about property rights earnings, it will be impossible to properly improve the economic performance of the department or enterprise and thus the department or enterprise will not be able to develop healthily and effectively.

For a long time, there has been an efficiency problem in the country's economy which has affected the whole situation. It is 41 years since the PRC was founded and, since the Third Plenary Session of the 11th CPC Central Committee, our country's economy, under the guidance of the policies of reform and opening up, has begun to realize the change from a closed to an open form and from a product economy to a planned commodity economy. However, seen overall, up till now our country's economy, especially the industrial and economic base, is still at the extensive operations stage and has been unable to truly shift to an intensive operations track with the improvement of economic performance as its center. The seriousness of the situation lies in the fact that in recent years economic efficiency has continued to deteriorate. If we look at whole-people enterprises, in 1984 the profit rate on funds was 24 percent. That is to say, for every 100 yuan of state funds, a profit of 24 yuan could be created. In 1986 and 1987, the figure fell to 20.7 and 19.7 yuan respectively. In 1988, because of great changes in the economy and the panic purchasing everywhere, there was a great increase in prices and this produced a false situation of "good performance." In

1989, economic performance again saw a great decline. From January to July that year, the realized profits of state-run industry within the state budget fell by 19.7 billion yuan over the same period in the previous year, a decline of 56 percent. The amount of enterprise losses reached 15.09 billion yuan, a growth of 99.2 percent on the losses in the same period of the previous year,

One of the important manifestations of poor results is that in most of the enterprises the production results, in other words the pass rate of products, are low or very low and the quality of products is poor or very poor. A 1988 survey of the products of over 100 electronic, machinery, textile, pharmaceutical, and light industrial enterprises in Tianjin reveals that the pass rate of each production cycle was generally under 60 percent and sometimes as low as 20 percent. That is to say 40 to 80 percent of the products had to be redone or abandoned. Here we can see how great the waste is and how poor the results are!

Another important manifestation of poor results is seen in the situation of high input and low output. If we take energy consumption as an example, the level of energy consumption necessary to achieve each \$1 increase in per-unit GNP was seven times higher than the figure in Japan and three times higher than the average world energy consumption figure. China's total annual energy consumption is about the same as that of Japan, but China's gross output value is less than one-quarter that of Japan. This situation of high input, low output will inevitably spur both investment and consumption inflation and as these will promote each other, the situation will become increasingly serious.

The poor results are manifested in direct results and also manifested in indirect results and this restricts, from various angles, the development of the overall national economy and all undertakings of socialist construction. The efficiency problem has already become the "major enemy" facing the development of all our undertakings. The past and the present have posed some extremely serious and major questions for people which urgently require resolving: What is the cause of the poor economic performance and why can we not improve it? Virtually everybody is now engaged in earnestly thinking about these questions.

Our society long ago entered socialist society with public ownership forming the main part and base. Socialist publicly owned property is undoubtedly a major historical step forward when compared with all past private property forms. The practice of our country's socialist construction over the last several decades has fully proved that the existence and development of public ownership has played an extremely important and inestimable role in: Overcoming the damage caused by long years of war; restoring and developing the whole national economy; consolidating and perfecting the socialist economic system; transforming and changing people's production and livelihood modes; raising people's standard of living; reforming social customs and habits; establishing an independent and self-reliant position for our

country on the international level; and so on. However, the facts of history also prove that our poor management of publicly owned property (especially whole-people owned property) and the incomplete development of an operational mechanism for publicly owned property, together with the power of private ownership concepts and the various corresponding practices formed on the basis of the private ownership system over thousands of years, have caused many intractable problems, including the situation whereby it is difficult to raise concern for property interests, thereby directly or indirectly affecting economic performance.

First, for property owned by the whole people, as the ownership of the property is completely in the hands of the state, the laboring individuals can only try to seek consumption interests through the form of wages by their labor. With this form of distribution, if the necessary and effective restraining measures are not adopted in practice, this may naturally lead people to only concern themselves with the consumption interests they can obtain with their own labor and not concern themselves, or not concern themselves too greatly, with the effective use, accumulation, and growth of property. Thus, the heavy responsibilities of using, accumulating, and increasing property will all be left to the social community—the state. However, because of the great pressure of administrative expenditure from all sides the state, in many situations, has to adopt administrative measures and mandatory plans to ensure that the enterprises complete their tasks for using, accumulating, and increasing state property. This not only stifles the bringing into play of the enthusiasm and creativity of the enterprises and the whole body of staff and workers, but it becomes difficult to avoid the situation in social distribution where the dual restraint and contradiction exists of "the state wanting to accumulate and the people wanting to consume." The laboring masses are the major elements forming the social productive forces. If they do not see the effective use, accumulation, and growth of property as "their duty" and do not dynamically and organically combine their own labor with other production elements, there will be no way of improving economic results and efficiency.

Second, under the traditional whole-people ownership property management system enterprises were not main entities. Their function was only the realization of the interests of the property owner—the state—not the interests of the enterprise itself. The increase or decline in output value produced by the operational activities of the enterprise was not innately or inevitably related to its own interests. Thus, the enterprises could not obtain the stimulus of profit maximization like commodity producers and operators. Thus, they lacked the motivation caused by such stimulus and the enterprises could not always concern themselves with the effective use, accumulation, and increase of property. Of course, enterprises could not achieve very good operational results. At present, we have many enterprises which, because of a large volume of technological imports, transformation,

and renewal, have technology and equipment which can be considered first or second grade. However, because the enterprises have been unable to digest and absorb this technology and create new technologies on this basis, appropriate efficiency cannot be brought into play. There have even been some new technologies and equipment which, because they were not well maintained and utilized, quickly become piles of waste metal. Thus, much of our limited foreign exchange was used in the wasteful cycle of "imports—further imports..." From 1985 to 1988, our country used \$14 billion importing technology. However, because digestion and absorption was not done properly, economic results were not good and it could not play a role in spurring on domestic technological development. From this we can see that if enterprises want to improve their results and efficiency, the key lies in properly motivating and bringing into play the enthusiasm and creativity of the enterprise and its staff and workers including managers, operators, and producers.

At present, the fixed assets of our whole-people ownership enterprises total 1.3 trillion yuan. If floating assets are included, the figure approaches 2 trillion yuan. Some people estimate that at least 30 percent of these are dead assets either because they do not work, are not rationally deployed, are stockpiled, are in safe keeping, or are sitting idle. Thus, the due production and growth role functions of these production elements cannot be brought into play. Another 30 percent of the assets are poorly operated, have poor results, or regularly incur losses.

Third, because under the traditional system people had very little concern for state property and it was not managed tightly, the phenomena of theft, fraudulent use of state property, and losses were very serious. After implementation of "credit replacing allocations" in the investment sphere there was no improvement in the soft restrictions on credit use, the weak supervision, the economic confusion, or the serious losses in funds circulation. For example, in the stock management of whole-people assets, there widely exists all sorts of chaotic phenomena such as "the accounts not matching reality", "different accounts not matching each other", and "accounts outside the accounts". According to relevant survey data, the whole-people assets outside the accounts total about 20 percent of those within the accounts, a figure of over 300 billion yuan. Even the assets within the accounts are quite chaotic. It is because of this that some lawless people have used these opportunities to change large-scale public ownership into small-scale public ownership, to change whole-people assets into collective assets, or to change public assets into private assets.

Practice proves that in any nation or society, if the people's concern for property is low not only conceptually but also in practice and they do not pay much attention to the effective use, accumulation, and growth of property, economic performance cannot be improved.

III.

Publicly owned property has always been the major material base for the existence and development of our country's socialist system and is thus the root of the country. At present, whether or not we can adopt targeted and feasible measures to raise people's concern for the interests of publicly owned property, especially of whole-people owned property, is a major matter which will directly determine whether or not we can really adhere to the socialist orientation and consolidate and develop the socialist cause. In this, a pressing demand is the need to deepen reform, especially reform of the existing property rights organizational system and management system.

The reform of property rights includes the two aspects of "intension" and "extension." "Extension" refers to a process whereby, external to an ownership system, for example external to the whole-people ownership system, in accordance with the needs of developing the social productive forces, the ownership structure within the cope of society is reformed and readjusted so that it becomes a rational, overall ownership structure with socialist public ownership, particularly whole-people ownership, as its main part. We have carried out such reform in the past and we are now deepening these reforms and seeing real results. What is meant by "intension" is that within a certain ownership system, for example within the whole-people ownership system, in accordance with the needs of developing the productive forces, the various internal rights and interests relationships are reformed and changed. At present, we are, throughout the whole-people ownership system, engaging in reform through the forms of contracts and leasing, which have the separation of the two rights (ownership and operational rights) as their content. This will be of benefit to the development of the whole-people ownership economy and in achieving consolidation and improvement through this development.

Of course, in the past we adopted various forms in the reform of property rights, such as the contract system, the leasing system, the shareholding system, enterprise alliances and mergers, the organizing of enterprise groups, and so on. These reforms freed a certain energy and we obtained corresponding results and achievements which should be fully affirmed. However, in reality, many problems exist in the property rights reforms we have already carried out. As far as the very widespread contract system is concerned, because it is unable to basically change the unitary property rights in whole-people owned enterprises (where only the state has ownership rights) and the various problems produced, this has resulted in short-term activities by enterprises, the borderlines delineating the enterprises' own funds have become hazy, and enterprises cannot really take responsibility for profits and losses. Thus, in these enterprises, mechanisms and functions essential for commodity economy operations, such as self-motivation, self-restraint, self-regulation, self-combination, and self-realization, could not be formed.

The problem at present is how, on the basis of summing up the various experiences of the reform in a way which seeks truth from facts, we are to develop these achievements, draw in lessons, target problems, and further adopt various more effective reform measures and deepen the reforms.

In future, the state, in its reform of enterprises, especially in its reform of the whole-people ownership enterprises, I believe should put efforts into reforming property rights. In this reform of property rights the focus should be on internal reform of the whole-people ownership system. The key to internal reform of the whole-people ownership system is, at the same time as adhering to the development orientation of the whole-people ownership system and in accordance with the demands of developing the productive forces, to truly readjust the internal rights and interests structure so that it can better accord with development of the productive forces within the whole-people ownership system. In this way it will be possible for the energy contained within the whole-people ownership system, which is the most advanced ownership form which mankind has so far seen, to be given full play. This will promote the great development of the entire socialist national economy.

To this end, the major specific requirements of reform are as follows:

First, it is necessary, within the whole-people ownership enterprises, to affirm real ownership by the enterprises of their "own funds."

It is possible on both the theoretical and practical levels, to separate ownership rights and operating rights. However, in the Marxist view, operating rights are but the form of realization of ownership rights. As soon as operating rights are separated from ownership rights, they will have their own growth function and thus, inevitably, besides the state's original ownership rights, new offshoots will emerge, producing secondary ownership rights of enterprises. When we reflect on the old economic system in our country, in the unitary system in which there was state ownership, state management, and state operations, this was where the state centralized in itself ownership rights and operating rights over the means of production of all whole-people enterprises. The operational results of enterprises—the products—naturally all belonged to the state. However, in a situation where the two rights have been separated, the state only has ownership rights over the original part of the means of production and does not own all of the products produced by the enterprises through operational activities utilizing their means of production. In fact, in an enterprise's operational activities, apart from the enterprise being subject to the state's macroeconomic regulation and control, all major decisions and their implementation in areas such as operational orientation, scale of production, product mix, personnel deployment, labor organization, use of technology, purchase of raw materials, the production process, and so on, and the risks to be assumed by the enterprise, should be taken by

the enterprise. Of course, the enterprise's production achievements should, naturally, first go to the enterprise. The products of enterprises are commodities and their value is realized through exchange. Of the commodity value realized by the enterprises, the enterprise, as the operator, should, in accordance with stipulated procedures, pay a fixed rate of taxes and profits at set times to the state, which has dual status (it is both the government and also the legal owner of whole-people assets). It should also deduct a certain amount of depreciation funds. After these payments have been made, the remainder should belong to the enterprise. This is the source of "enterprises' own funds" which are retained by enterprises and which already have policy approval. It should be noted that the legal limits of enterprises' "own" property are clear. Thus, no matter what form is adopted by the enterprise in the use of the funds, whether or not they are: Accumulated or consumed; accumulated as fixed assets or raw materials or used as floating funds; and whether or not they exist as money or as property, it will not change the nature of the enterprises' ownership rights. Seen from the reproduction process, an enterprises' own funds are a dynamic and variable volume. Through their growth and development, that is, through the owners' effectively using, accumulating, and increasing the funds, they will gradually change from a "larva" into a "butterfly." That is, they will change into major wealth which society owns but which the enterprise has the right to use.

Once the enterprise, as an economic unit, has this real, rather than nominal, property of its own, it has a base for its own independent existence. Regardless of the size of this base it can produce and bring into play a great economic effect in self-development.

—Recognizing enterprise ownership rights naturally means recognizing the rationality and legitimacy of the enterprise seeking its own interests, including property interests. The enterprise can pursue its own interests in a sustained way and can continually and effectively utilize the production element property which it has the right to control. In the process of effective use of this property, it can also continually accumulate and increase its assets. This is the basic motive power by which enterprises can achieve self-development and self-realization. At the same time, this motive power will play an extremely important role in further perfecting the enterprises' operational mechanism, improving the enterprises' operational activities, and improving the enterprises' operational results.

—When enterprises have their own property ownership rights, it will show that the enterprises, as commodity producers, really have their own indispensable economic base. In the past, we engaged in the commodity economy for quite a few years but, within the whole-people ownership economy, the results were not as expected. Why was this? The reason lies in that the enterprises lacked this base. It can be affirmed that only by establishing and developing this base is it

possible for a commodity economy, not empty talk but a real commodity economy, to be formed among whole-people enterprises.

- When enterprises have their own property rights it will, at the same time, resolve the problem of enterprises taking sole responsibility for profits and losses. This has been talked about for years but has been impossible to achieve. In a situation where all enterprise property belongs to the state, enterprises cannot take sole responsibility for profits and losses because: 1) They do not have the economic base to cover losses; 2) They do not have the power to take on losses; and 3) In accordance with the principle of reciprocity between rights and duties, the enterprises do not have the right to take profits nor the obligation to shoulder losses.
- When enterprises can take sole responsibility for profits and losses there will be a reliable guarantee for the accumulation and growth of state funds. If enterprise losses result from poor operations by enterprises, they should be made up from enterprise funds rather than state funds. In this way, state funds will not be harmed and, in fact, will be guaranteed. At the same time, while enterprises seek maximization of their own interests, state financial income will correspondingly rise.
- The existence of state ownership rights will inevitably and immediately have a stimulating effect on growth in enterprise accumulation. To a certain degree, this will also naturally hold down consumption fund inflation. At the same time, the stressing of economies, opposition to waste, and improvement of economic performance will all become goals to be achieved in enterprise operations.

It must be pointed out that in traditional socialist economic theory, it has always been held that socialist whole-people ownership can only adopt the unitary state ownership rights form. Seen from the present day, this view does not necessarily accord with reality. This is because in the whole-people ownership economy, the socialization of production has not reached a very high degree and development is uneven. Thus, the interests of the whole-people ownership economy has a dual nature. The first aspect is the overall nature and the second, the partial nature. Regardless of what we do, we must not repeat what we did in the past by "cooking the big and the small in one pot" and see the whole-people ownership economy as a complete and unitary ownership system in which there are no distinctions and which serves unitary interests. In fact, the whole-people ownership system in the current stage is an incomplete, or very incomplete, whole-people ownership system. The situation where "the whole-people economy is not whole" is clearly manifested not only in property rights relations but also in labor combination forms. Thus, the whole-people ownership economy can only reflect the interests of all people from different levels and to differing degrees. The dual nature of the interests of the

whole-people ownership economy determines that there is a duality manifested in the whole-people ownership rights, a duality comprising state ownership rights and enterprise ownership rights. The state ownership rights more strongly reflect the entirety of whole-people interests, while not reflecting or not greatly reflecting the partial nature of the enterprise interests. The enterprise ownership rights more strongly reflect the partial nature of whole-people interests, that is, the specific manifestation of whole-people interests in each enterprise. If every enterprise can, in seeking its own interests in accordance with commodity economy patterns, use its own stipulated legal powers to seek maximum, fair, reasonable, and legitimate interests so that it becomes prosperous, then, seen overall, is this not the common wealth of all the people? This is because, in the end, enterprises are just small cells of the huge organ constituting the whole-people economy. The situation of one system with two types (or many types) of stipulated legal rights has existed quite widely in various societies and countries throughout history. For example, under the capitalist private ownership system there has successively or concurrently been capitalist state ownership rights, monopoly capitalist ownership rights, and nonmonopoly capitalist property rights. At present, within the scope of the whole-people ownership system, apart from state ownership rights and enterprise ownership rights, there also enterprise group ownership rights for property formed by the free funds of enterprise groups constituted by various enterprises. Of course, in the broad sense, group ownership rights are a form of enterprise ownership rights, a form which expands enterprise ownership rights. Thus, in my view, among whole-people enterprises, the joint existence of state ownership rights and enterprise ownership rights, or "one system, two rights" is imperative. This is also the road to follow in achieving self-perfection and self-development of the whole-people ownership system.

Second, re-establishing the system of ownership by laboring individuals. Scientific socialism holds that, on the basis of joint appropriation of social property, any laborer should be allowed under the principle of labor equality and through labor, at the same time as obtaining a certain amount of means of consumption, to use some of what he has obtained through his labor and, thereby, reestablish the system of individual ownership by laborers. Marx said that communism is not intended to abolish all ownership systems but only to abolish the bourgeois ownership system. It is not intended to expropriate all people's power to appropriate social product, only to expropriate the power of a small number of persons who use this appropriation to enslave others' labor. Thus, any system of individual ownership by laborers, re-established under the new conditions, will be essentially different from any past private ownership system. Further, this is an indispensable ownership form under the socialist system and a supplement of the public ownership system. With the existence of the system of individual ownership by laborers, after getting rid of a few problems not in accord with the demands of the

times, such as the private ownership system which has the enslaving and exploitation of others' labor as its goal, its very valuable role lies in the following: It maintains and even strengthens the joint function of all property owners in effectively using, accumulating, and increasing property. How are they to use, accumulate, and increase their property? This is something for individual laborers to decide upon but one of the feasible forms will be investing through shareholdings.

Seen overall, under the socialist system, especially in whole-people enterprises, if we allow the three above-mentioned types of ownership rights—those of the state, the enterprise, and the laborers—to coexist, to play mutual roles, and to benefit each other, this will allow the enthusiasm and creativity of the three major elements of the socialist public-ownership economy—the state, the enterprises and the laborers—to be fully motivated. The result of this will certainly be that economic performance will be greatly improved and thereby the socialist economy will move towards prosperity, growth, and development.

Footnotes

1. Engels, "On the Housing Question" in *Selected Works of Marx and Engels* Vol 2, p 537
2. Marx, "Proceedings of the Sixth Rhine Provincial Assembly" in *Collected Works of Marx and Engels*, Vol 1, p 82.
3. Lenin, "The New Economic Policy and the Tasks of the Political Education Departments" in *Collected Works of Lenin*, Vol 33, p 51.

Key State Enterprises Progress in Technical Development

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[Text] Beijing, January 6 (XINHUA)—During the Seventh Five-Year Plan period, smooth progress was made in the technical development program for major state-owned enterprises, an important component part of China's scientific and technological project. More than 4,000 important new technologies and products were successfully developed, three-fourths of which reached international standards or advanced world level.

Starting with the Seventh Five-Year Plan period, the State Planning Commission began to formulate and implement technical development programs for major enterprises. It has invested a total of 1.5 billion yuan in developing some badly needed technologies for some industries, thereby changing the technical outlook of these industries, and enabling their technology to leap from the standards of the 1950's and 1960's to those of the 1980's. For instance, in shipbuilding, during the Seventh Five-Year Plan period, efforts were concentrated on domestic production of ships for export and ocean liners of more than 10,000 metric tons. Through

the assimilation and digestion of diesel engines, communications, navigation and other crucial equipment and basic component parts, China has managed to improve the quality of its ship equipment to the international standards for products of similar category, thereby making its products competitive in the world market. During the Seventh Five-Year Plan period, China undertook the building for export of 145 ships, totaling 1.16 million metric tons. The total tonnage doubled that of the Sixth Five-Year Plan period.

In the course of technical development, many practical and new technologies have been completed, which are playing an important role in China's capital construction and technical transformation. In the construction of the phase-two project of the Baoshan Iron and Steel Complex, thanks to the assimilation and digestion of the imported equipment and technologies of the phase-one project, the needed equipment and technologies were basically developed in China, thereby saving substantial investment. The construction of the new steel plant was smooth and swift thanks to the adoption of the more than 500 new technologies assimilated and absorbed by the Baoshan Iron and Steel Complex in designing the plant. The results of assimilating and digesting the complete set of technology and equipment for large-scale aluminum electrolytic trough have been applied in the construction of large aluminum plants in Baotou, Qinghai, and Guizhou. This has saved tens of millions of dollars in foreign exchange and has considerably raised the designing standard of aluminum electrolytic trough in China.

The implementation of technical development programs in enterprises has accelerated the development of new products and has helped invigorate the market and satisfy the people's needs in their daily lives. A few years ago, production of color TV sets in China was limited because it relied mainly on assembling the imported parts. During the Seventh Five-Year Plan period, priority was given to projects for developing our own technology for the production of equipment and component parts as well as raw and semifinished materials for color TV sets. Difficulties in some crucial technologies were overcome, thereby increasing the percentage of domestically developed technology to more than 95 percent. The annual capacity of some 6 million units is basically sufficient to meet market needs. Athletic shoes are also loved by young and old people in modern life. Thanks to the technical development project for athletic shoes in the Seventh Five-Year Plan period, at present, we are now basically capable of manufacturing related production equipment and acquiring the needed raw and semifinished materials on our own. Now comfortable athletic shoes are readily available.

New technologies and products have generated tremendous benefits in production. According to the statistics of the State Planning Commission, these technologies and products directly created an output value of 8.4

billion yuan, as well as profits and taxes of 1.8 billion yuan, and saved more than 700 million yuan in foreign exchange.

It is learned that during the Eighth Five-Year Plan period, based on the direction for readjustment of product mix and production structure as well as the need for technical progress in enterprises, the emphasis of technical development in major state-owned enterprises will be placed on the basic techniques and leading products. This will considerably raise the overall level of production technology and products in some sectors.

Separation, Integration of Two Rights

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[Article by Zhang Chao Jun (1728 2600 1415), of the Economics Department, People's University of China, edited by Lu Wen (1720 2429): "Integration of the Two Rights on the Basis of the Separation of the Two Rights—A Discussion on the Defects of the Contracting System and the Direction of Its Progress"]

[Text] At the initial stage of reforming the form of the system of ownership by the whole people, the reform was carried out along the line of thought of separation of the ownership right and the use right. This was objectively inevitable at a definite stage because, under the traditional system, the enterprise did not possess the independence of autonomous operation, was the subordinate of the administration, and lacked vitality and the ability for self-development. As a result, when the reform began, it was necessary to stress the separation of the two rights, that is, the ownership right and the use right. This was correct. However, merely stressing the separation of the two rights, even making the separation a matter of absolutes, and taking it as the only way out in the reform of the form of the system of ownership by the whole people would not be correct. Looking at the matter from the fundamental angle of the advantages to economic development, in our opinion reform of the form of the system of ownership by the whole people should seek the basis of the separation of the two rights and on that basis adopt a suitable form to enable the organic integration of the two rights in operations; only this is the correct way out. And to accomplish this, it is necessary to gradually push the socialist stock and share system. I. As we all know, the purpose of the people's holding or owning means of production is to attain certain material benefits through using the means of production to carry out operational activities, that is, economic activities, of production, exchange, and distribution. Hence, the ownership and use rights of the means of production are inseparable and the benefits of the ownership right are derived and realized through actually exercising the use right; without actually exercising the use right, there would be no actual economic activities generated and, as a result, the owners of the means of production could not obtain the actual material benefits. In reality, at the early stage of human society's development, the ownership

and use rights of the means of production were united, the owner was the user and the two were two in one in engaging in operational activities and obtaining material benefits. Even at the early stage of capitalist society, when mankind's social economy had attained a certain high degree of development, the ownership and use rights were also united in operation. This phenomenon was not accidental. Seen from the actual nature of economies, only through the integration of the two rights can it be beneficial to the owner of the means of production to realize benefits. This is because: First, integration of the two rights is beneficial to the realization of the ownership right in the economy because, as said above, the benefits of the ownership can only be realized through the actual exercise of the use right. Second, integration of the two rights is beneficial to the rational use of the means of production and helps to avoid the unnecessary wastage of the means of production. Third, integrating the two rights makes the means of production owner become at the same time manager and user of the means of production. Internally in the enterprise this is also beneficial to distribution, ensures accumulation, and prevents short-term acts in internal distribution. Therefore, unless absolutely necessary, the two cannot be separated. Naturally, whether the two are integrated or separated is not determined by the subjective wishes of the owner or the user but is determined by the objective economic process. Take capitalist society for instance: at its initial stage, they were integrated and this integration played an important role in the capitalist economy's development. However, following the development of social division of work and the development of production and capital socialization, objectively there came the demand for the two to be gradually separated. After the separation of the two, the capital's ownership right itself then was separated into legal ownership right and economic ownership right. This sort of separation demonstrated that the owner of capital must give a portion of the benefit he can obtain to the capital user (manifested in phenomenon of the capital user delivering to the capital owner a portion, but not the whole, of the benefits obtained from the use of the capital). Because of the existence of this kind of relation, so far as the owner of the means of production is concerned, he is inclined, and earnestly endeavors, to seek the integration of the ownership and use rights in the operation, since only by so doing will he be able to fulfill his intent to obtain the largest benefit, and this intent or stimulation must persuade him to do a good job in production and operation. A British economist by the name of "Er-sha-yang" [1422 3097 2254] was sharply aware of this. He said: "If a person's ownership right of a piece of barren land is protected, he will change it into a garden; but if the person is given a contract for nine years' use of the garden he will change it into a piece of barren land."¹ Confucius, of our country, said: "If a person does not have a permanent property, he will not have constancy of purpose." Only because of the development of the social division of work, and the development of production socialization and capital socialization, were the two rights forced to be separated. Naturally, because the

separation of the two rights is a sort of inevitability in socioeconomic development, it has its benefits to socioeconomic development. The principal benefits are: First, in essence, separation of the two rights is the product of socialist large-scale production and conversely it will greatly promote the development of production socialization. Second, on the basis of the individual's, collectives; and even the state's holding of the means of production, separation of the two rights can realize a relatively rational distribution of economic interests. Third, under the socialist system of ownership by the whole people, separation of the two rights is the basic road to realizing the enterprise's becoming the commodity producer possessing cooperating independent economic interests. However, seen from the economic nature, integration of the two rights occupies the first place; whereas separation of the two rights takes the second place.

Seen from the above, the ownership right form which can further the economic development most is that, on the basis of the separation of the two rights, we realize their integration in operations. Such an organizational form can turn into one body the strong points of both sides and further effectively promote economic development. One of the successes of capitalist economic development is that the capitalist class, through several hundred years of experiences in economic rule, has been able finally to discover an organizational form which, on the basis of the separation of the two rights, realizes their integration in operations. And this is capitalism's stock and share system. The system has performed an important promotional role in developing the capitalist economy. It is inconceivable that the capitalist economy could have achieved today's development without the stock and share system. We can and should learn from and copy this experience of capitalism. It can be used to solve the contradictions in the system of ownership by the whole people.

II. The socialist system of ownership by the whole people came into being and was developed on the basis of eliminating the contradictions between production socialization, private ownership, and capitalist exploitation. This being the case, what constitutes the system of ownership by the whole people? The so-called system of ownership by the whole people is to join together on a societywide scope all the workers to jointly own the sum total of the means of production within that scope. Here, the workers combined, or the whole body of workers, constitute the subjective body of the ownership and the sum total of the means of production, the objective body. As for the innate nature of the system of ownership by the whole people, it absolutely rejects any individual or group from cutting off a part of its ownership right. Just as Marx said: "Possession of the aggregate productive forces by a combination of individuals and elimination of the private ownership system."²

The above condition shows that in the system of ownership by the whole people the ownership right belongs to the whole people or whole society (at the current stage, it

adopts the form of state ownership right which represents the whole people's interests); and this ownership right extends to the sum total of the means of production, that is, the whole means of production within society's scope. This is on the one side. However, on the other side, due to the determination by the conditions of the production's technical equipment, actual production can only be scattered among single production operational units (known as enterprises at the present stage) for execution and cannot be carried out by the whole society as the unit. As a result, a contradiction is generated, inside the system of ownership by the whole people, that is, the contradiction that exists between the concept that the means of production of the system of ownership by the whole people must belong to the whole people or whole society of the state which represents the whole people's interests and the concept that the conditions of production's technical equipment determine that actual production can only be scattered among the enterprise units for execution. The only solution to this contradiction is the separation of the ownership and use rights of the means of production of the system of ownership by the whole people and letting the enterprise use state-owned means of production (on the funds in their monetary manifestation). One of the basic defects of the traditionally highly centralized economic structure is that the two rights are not separated and that production and operation are carried out in the pattern of whole society being like a large plant, which makes the enterprises become the appendices of administrative organs without their correspondingly independent economic interests and without autonomous power of independent operations. This causes the enterprises to lack the enthusiasm for production and operation and also the ability for self-development. So far as this side is concerned, our reform of the economic structure starts from the separation of the two rights and enforces the contracting system. This is correct and has achieved certain accomplishments. Nevertheless, taking the separation of the two rights as the absolute, looking at it as the only road to reform, or allowing the contracting system to stay put for the long term and not to advance further, then it would not be correct at all. Here, we cannot but talk about the contracting system's basic defects.

It is generally understood that under the contracting system the enterprise enjoys only the use right and not the ownership right (also so stated in the "Enterprise Law" promulgated by the state), and that for the contracting system to maintain and protect the integrity of the system of ownership by the whole people is a relatively ideal form of the separation of the two rights. In our opinion, this sort of understanding is erroneous in theory. According to Marxist economic theory, the separation between use and ownership rights can only be the separation between the use right and the legal ownership right and not the separation between the use right and the economic ownership right, because after separation of the two rights, for the enterprise to become a commodity producer and an operator doing independent

business accounting, it must have the economic ownership right, otherwise the enterprise cannot effectively conduct production and operation and cannot handle the economic relations and/or interest relations with other enterprises (because ownership right relations are the basis of economic relations or interest relations), and hence cannot carry out independent business accounting. This is to say: the enterprise's economic ownership right is the basis for the enterprise to enjoy the autonomous operation right, that is, the use right. If the enterprise does not possess the economic ownership right then it would be just an empty word to say that the enterprise can autonomously operate.

This being the case, what is the enterprise's economic ownership right? When talking about the separation of capital's ownership right and use right, Marx said: this sort of separation "is the separation of capital's legal ownership right from its economic ownership right."³ When talking about the relations between the owner of capital and the use of capital, he further pointed out: "In reality, they are partners: one is the owner of the capital in law and the other, when he uses the capital, is the owner of the capital in economics."⁴

It can be seen from the above that in the objective economic process at the separation of the ownership and the use rights, the original ownership relations necessarily follow and are changed and the separation itself makes the use right bring along the ownership right in economics. That is to say: in the actual economic process, mere separation of the use right does not exist. Its separation inevitably enables the user to bring along the economic ownership right. Or, we may say, the use right itself embraces the economic ownership right. In our opinion, herein lies the basic defect of the contracting system, that is, while in name or in the provisions of the "Enterprise Law" it maintains the integrity of the system of ownership by the whole people but in fact it goes to its own reverse side and already violates the integrity of the system of ownership by the whole people, with the contractor at least having obtained the economic ownership right. To a certain extent, this economic ownership right is more important than the legal ownership right since in the actual economic process, only after the realization of the economic ownership right can the legal ownership right be realized.

The economic ownership right has an important characteristic and this is that the user can enjoy the economic ownership right only "when he uses the capital." Take the contracting system for example: only during the contracted period does the contractor enjoy the economic ownership right but after the contracted period he no longer enjoys the economic ownership right. Such a condition necessarily causes the contractor to over use or even randomly use the economic ownership right he has acquired, thereby causing the ill practice, blamed by all people, of "not using the right when it is on hand and allowing it to lapse upon expiry" to gain an objective economic basis among the enterprises of the contracting system. This is wherein lie the basic causes of the

universal presence of short-term acts among the contracted enterprises, and their engaging in operations of a plundering nature and in the individual seeking the maximum distribution of grains. Perhaps people may ask: is it not true that the contract can curb the enterprise's conduct? In our opinion, restrictions imposed by the contract are not internal restrictions but are external restrictions and they have large limitations: First, the contract cannot correctly include in it all the enterprise's economic activities, particularly the activities of a relatively future period; second, the contract is a sort of a control measure and along with control comes anti-control, which is the objective basis for the breeding of the phenomenon of "whenever the upper-level proclaims a measure the lower-level invariably offers a counter measure." In short, with the contracting system completely dispelling the original owner from the enterprise's operations, naturally non coordination exists in the relations between the state and the enterprise. This is another defect of the contracting system.

This being the case, does it mean that the contracting system's enterprises have not done well; and how shall we treat the successful experiences of enterprises which have engaged in the contracting? In the above, we talked about the problem of the contracting system from the standpoint of the objective economic conditions, that is, from the system itself, and have found the existence of certain important defects. But this does not dispel those contractors (including individuals and groups) who possess good political quality and strong business capability, who can repel various kinds of interferences, and who put their production operations in good running order. nevertheless, merely depending on "human-rule" and not attempting to solve the problem of the system itself will make us unable to fulfill the gigantic historical tasks of the modernization enterprises. III. In the above, we mentioned that the contradictions of the system of ownership by the whole people inevitably caused the separation of its ownership and use rights, that this separation in turn inevitably brought along the violation of the integrity character of the system of ownership by the whole people and that, therefore, it was necessary to seek a road, on the basis of the separation of the two rights, to have these two rights integrated in the course of the operations. We also mentioned that the stock and share system instituted by capitalism could be used to solve this contradiction. Thus, is the stock and share system capable of solving this contradiction of the socialist system of ownership by the whole people and in what way can it do so?

An important characteristic of the stock and share system is that its capital funds are raised through the issuance and sales of shares, and that, in this process, due to the shareholders in society buying the shares and stocks in carrying out investment in the enterprise, the ownership right of the capital and its use right are naturally separated. Following this, the ownership right of the capital is divided into legal ownership right and economic ownership right. The former is held by the

shareholders and the latter, by the enterprise. Hence, the enterprise has the economic basis of doing its own independent operations. As mentioned before, this kind of separation is manifestation of the socialization of capital funds and can effectively promote the development of production socialization. Using this principle, if the existing or newly added fixed capital funds of our system of ownership by the whole people can all come through the form of the purchasing of enterprise shares in the investment in the enterprises (naturally among the enterprises and the individual workers they can also purchase the shares of the enterprises but, generally speaking, this portion of shares occupies a small portion of the shares of enterprises), the result will be that the ownership and use rights of capital funds are separated and the state and other shareholders will become the legal owners and the enterprise will become the economic owner. Under such conditions, the enterprise will have its own economic foundation for autonomous operations. In the realm of economics, the relationship between the state and the enterprise will become what Marx called a "partnership" and will be unlike both the up and down relationship characteristic of the traditional structure and the ordinary contractual relationship characteristic of the contractual system. By so doing, the state will not be able to directly manage the enterprise and the enterprise can free itself from the status of being subordinate to an administration. In such a case, the state can only display the macroeconomic regulation and control role of an upper structure.

Another important characteristic of the stock and share system is that after separation of the two rights, it will not be like that of the contracting system banning the owner from the enterprise's operations. Rather, the shareholders will elect their own representatives to form the board of directors, which will serve as the organ of the highest authority and policy-making in the enterprise. It will appoint a manager to concretely carry out its policy. Under such conditions, the shareholders will not, because they hold only the legal ownership right, give up their operation of the enterprise. On the contrary, through electing their own representatives, they actively participate in the operation of the policy-making structure, the purpose being to protect their investment, that is, their legal ownership right, to obtain the maximum benefits, that is, more share interest and profits.

In the board of directors election, the representatives are elected on the basis of the plurality of shares and hence owners possessing the majority number of shares will be able to be a member of the board of directors or become the board chairman. Under such conditions, with the enterprises of the system of ownership by the whole people enforcing the shareholding system, the state definitely holds the majority of the enterprise's shares and hence its representative can easily become a member of the board of directors or the board chairman. This will more easily enable the enterprise to execute the state's economic policy. This condition is basically different from that of the state directly running the enterprises

under the traditional structure because at that time the ownership and use rights of the capital funds were not separated, the enterprise did not have its own economic foundation, did not have the conditions for carrying out independent business accounting, and hence did not possess the independent character of autonomous operation. Now the conditions are different. Now the enterprise, through issuing shares to raise the capital funds, has its own economic foundation for autonomous running and doing independent business accounting. At the same time, the owner under the system of ownership by the whole people, being only the representative of the state-owned shares and participant in the board of directors organized by the enterprise itself, can only play the role of a constituent member of the board of directors. Under such conditions, he himself must maintain the independent character of the enterprise's autonomous operations and cannot, like before, take the enterprise as an administrative subordinate to directly run the enterprise.

In short, it can be seen from the above analysis that the shareholding system is a form of organization which can maintain the strong points of the separation of the two powers and at the same time display the strong points of the integration of the two powers. Therefore, it can, to the maximum degree, arouse the enterprise's activism in production and operation, enable the enterprise to have the ability of self-development and self-restriction and, at the same time, is beneficial to the thorough implementation of the state's macroeconomic policy. From this it can also be seen that, although the stock and share system is a capitalist creation, in itself it is suited to the organizational form of socialized large-scale production and its nature determines the nature of the property of the shareholder; that is, under the capitalist ownership system its nature is socialist. Hence, we should, based on the development of the economic situation, adopt suitable steps and policies to activate and push the socialist stock and share system. Naturally, in carrying out the reform of the stock and share system, many problems still need to be clearly elucidated by means of the integration of theory and practice.

Footnotes

1. Quoted from Jindebarker *Economic Development*, second edition, p. 24
2. Marx and Engels, "German Ideology," *Collection of Essays of Marx and Engels*, Vol. 3, p 77
3. Marx: "Theory of Marginal Value," *Collection of Essays of Marx and Engels*, Vol. 26 (III), p 511.
4. Ibid, p 565

Survey Reviews Worker Perceptions of Living Standards

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[Text] Beijing, January 14 (XINHUA)—What do Chinese workers think of their present lives?

A recent survey conducted among some 7,000 of them shows that 67.2 percent regard their living standards as having been raised "considerably" or "a little," 20 percent thought standards had been maintained, while 12.6 thought their living standards had declined.

The biggest household expenses result from buying food and sending children to school, according to the survey.

Most spare time, as described by the majority, is devoted to household chores, watching TV and helping children with their homework. These were followed by reading or other recreational activities. About 1.8 percent of them have spare-time jobs.

As to their spare money, 18.8 percent said they deposit it in banks, and 31 percent said they want to spend it. The survey found that the older the survey subjects, the more inclined they were to save, while the young ones preferred to spend.

The survey was jointly conducted by the Chinese Academy of Social Sciences and the State Statistics Bureau in some 12 cities in four provinces.

Most of those who thought their living standards had risen in recent years were leaders of units, service workers, and some industrial workers and technicians. And most of them were between 26 and 35 years of age, the survey showed.

Some 45.3 percent of the people surveyed attributed the raising of living standards to the "rise in wages and bonuses," 23.5 percent to "the increase of employment of family members" and 2.4 percent said it came from "moonlighting."

But what caused declines? Some 48 percent of them put the blame on price rises, 19.4 percent said they had to spend too much money on gifts and 13.2 percent imputed the decline to the decrease of their incomes.

Most of the people surveyed cited housing and social welfare as the most acute problems at present. And quite a number of them hoped for a more varied cultural life.

Although the wage of workers and per-capita income of the urban residents increased about 10 percent and 17 percent, respectively, in the past five years, still one third of them consider their living standards have declined. Apart from occupational differences, unfair social distribution exists and the price hikes in recent years have offset part of the income increases, according to experts.

To solve these problems, they suggested, housing reform and medicare system reform should be speeded up, and community and tertiary services be greatly expanded.

They advised the government to absorb the huge surplus of cash in citizens' hands, expand non-commodity consumption, speed up the commercialization of housing, and develop the investment markets to transform more individual incomes into productive capital.

Urbanization Proceeding Rapidly

OW1701233391 Beijing XINHUA Domestic Service
in Chinese 0040 GMT 16 Jan 91

[Text] Nanjing, January 16 (XINHUA)—As revealed at a meeting held in Zhenjiang City, Jiangsu Province by the departments concerned, China greatly quickened its urbanization process during the last decade of reform and opening to the outside world, as compared with the preceding 30 years. Our country had a total of 216 cities 10 years ago; now, the number has increased to 450. Meanwhile, five changes have appeared in urban construction.

First, small- and medium-sized cities have developed much faster than big cities. The problem of a concentration of urban populations and economic activities in big cities has improved to a fairly big extent. Because of the efforts to implement the policy of "strictly controlling the expansion of big cities while reasonably developing small- and medium-sized cities," the number of medium-sized cities with a population of between 200,000 and 500,000 has increased from 60 to 117, and the number of small-sized cities with 200,000 people or less has increased from 116 to 275 during the past 10 years. In the meantime, the number of towns has climbed from 2,800 to 11,873.

Second, difficult problems experienced by urban people in their daily lives have been resolved gradually. The past decade has seen the appearance of over 2,000 small residential areas, each 50,000 square meters or more. This has brought the average per-capita housing area to 6.6 square meters in cities. In addition, there has been a marked improvement in such infrastructural aspects as sewer systems, electric power, communications, coal, gas, road and bridge construction, and environmental sanitation, which are related closely to the people's everyday life.

Third, urban planning and management have been put on the basis of the legal system. Throughout the country, all cities with subordinate cities under their jurisdiction have properly approved overall plans. Many provinces and cities have promulgated regulations for carrying out their urban plans. At the same time, 80 percent of the cities with subordinate cities under their jurisdiction and 50 percent of the counties have instituted rules requiring licenses for use of land for construction and construction projects. Urban management has begun to change from closed-door management to open-type management.

Fourth, the urban planning work contingent and organizations have expanded quickly. Nationwide, there are over 30,000 workers engaged in design, research, and management work associated with urban planning. There are more than 100 planning design institutes at various levels.

Fifth, with regard to urban planning and construction, fairly big breakthroughs have been achieved in the concepts, tasks, methods, and measures. All these are becoming more advanced and scientific. For example, the concepts of regional development and characteristic urban functions have superseded the traditional concept of merely putting importance on space and the traditional static concept. Individual plans and use of land without charge has been replaced by comprehensive plans and the system of compensation for use of land. Architectural and urban sciences have received equal attention and have been integrated into an organic whole.

Administration Spokesman Explains Enterprise Decrease in 1990

*OW2601205991 Beijing XINHUA in English
1452 GMT 26 Jan 91*

[Text] Beijing, January 26 (XINHUA)—The number of enterprises in China decreased during 1990, according to sources from the State Administration for Industry and Commerce.

The administration released statistics today showing that by the end of last year the number of enterprises in the country had decreased by 8.9 percent to slightly over 4.6 million. The enterprises employed over 173 million people, down 3.4 percent.

An administration spokesman attributed the decrease mainly to the national program aimed at overhauling enterprises, during which over one-third of the enterprises were either closed or merged.

The spokesman said that the decline was a normal phenomenon in the process of the country's economic readjustment.

At present, state-owned enterprises constitute over 25 percent of all enterprises, and 74 percent of collectively-owned enterprises. But generally, state-owned enterprises are big, collectively-owned ones are small.

The spokesman said that China's non-government economy began to recover last year after declines in 1989, and that it is now brisk and steadily on the upswing.

The statistics show that households engaged in private business increased 6.6 percent to 13 million, while the number of people employed by these businesses increased 7.8 percent to 20.92 million.

The number of privately owned enterprises exceeded 98,000, up 8.4 percent, employed 1.47 million, up 3.7

percent. Four hundred of the private enterprises were reported to have registered funds exceeding one million yuan.

The spokesman said that growth was mainly due to the efforts of governments at all levels who, in accordance with state policy, had protected and supported the development of various forms of economic entities.

He said that during the past five years the private economy had attracted over 2.18 million people to the country's urban areas, which helped a great deal in solving the problem of unemployment.

However, he pointed out, China's non-government economy presently makes up only a small proportion in the overall national economy.

At present, people employed in this sector make up only 4.04 percent of the country's total labor force, and it has registered funds equal to 2.39 percent those of state and collectively owned enterprises.

The spokesman also revealed that the number of joint ventures in China increased by a record 7,000 last year marking the largest increase since the country opened to the outside world.

Experts Forecast Market Trends

*OW2701131391 Beijing XINHUA Domestic Service
in Chinese 0407 GMT 27 Jan 91*

[By reporter Zhang Jinsheng (1728 6930 0524) and trainee Hu Jiali (5170 0857 5461)]

[Text] Beijing, January 27 (XINHUA)—The Department of the Distribution System under the State Commission for Restructuring Economy and the publisher of the magazine CHINESE ECONOMIC STRUCTURAL REFORM [ZHONG GUO JING JI TI ZHI GAI GE 0022 0948 4842 3444 7555 0455 2395 7245] recently cosponsored a seminar to analyze and forecast the market situation and trends in China. The seminar revealed: The markets of consumer goods and means of production will improve further this year because, judging from the present situation, the markets may either continue their current steady growth or progress at more vigorous paces. However, due to shortages of marketable goods, the structural sluggishness of the markets will continue for some time.

According to the analyses of the experts of the State Statistical Bureau, the Ministry of Commerce, the Ministry of Materials and Equipment, and the State Administration for Industry and Commerce, the national economy continued to enjoy a sustained and steady growth throughout last year, which, in turn, enabled the market environment to improve. In particular, the bumper agricultural harvest, the gradual recovery in industrial production, the increases in the incomes of urban and rural residents, and the preliminary results of the adjustment of industrial product mix all have created

favorable conditions for activating the market. It is predicted that this year will witness a certain growth in the total volume of retail sales from last year.

In predicting the sales of major commodities for this year, the experts noted: The cross-the-board bumper harvest in farming, animal husbandry, sideline production, and fishery has resulted in ample supplies of grain, cooking oil, eggs, and meat to meet market demand. Food sales, therefore, will witness a steady growth. Clothing sales also will increase, especially the sales of 100-percent-cotton products and fashionable garments. Appliances will see increased sales, too, with best sellers being small household electrical devices such as food processors, humidifiers, and heaters.

The experts stressed that the key to activating the market this year is the adjustment product mix. At present, product mix is far from reasonable and the imbalance between supply and demand has not been alleviated fundamentally. According to a sampling survey, of the more than 600 kinds of major commodities sold on the market currently, 16 percent are in short supply, 60 percent enjoy adequate supplies, while some 160 kinds of commodities exceed their demand. In addition, the consumption mentality of consumers is normal; the majority of them either buy whatever they need or hold onto their money and wait for goods to purchase. Therefore, in order to activate the market, the industrial sector must make great efforts to quicken the adjustment of product mix and produce more and better marketable goods to help the market flourish. As bicycles, sewing machines, and radio/tape recorders were in the 1970's and color televisions, refrigerators, and washing machines were in the 1980's, some experts suggested that new hot sellers be created for the 1990's, such as housing.

In analyzing the rural market situation for this year, the experts noted: At present, the market lacks high-quality, reasonably priced goods for peasants; marketing channels are limited; and peasants' purchasing power is weak. All of these inhibit the development of the rural market. With more than 800 million people living in rural China, peasants constitute the main body of the market. Therefore, more effective steps shall be taken this year to activate the rural market. Moreover, peasants in general believe that saving money is better than accumulating goods, thus joining those urban residents who hold onto their money and wait for goods to purchase. Therefore, in addition to further refining policies to raise peasants' purchasing power, more efforts shall be made to improve marketing, such as bringing more marketable goods to rural areas and developing more circulation channels

while enhancing the role of supply and marketing cooperatives as the main marketing channel, to meet the needs of the massive number of peasants.

It has been revealed that in a bid to further increase commodity sales, state-run commercial stores and supply and marketing cooperatives will continue their efforts this year to clear out goods from their warehouses to further invigorate the market.

One-Third Firms Closed, Merged During Last Two Years

*OW2601130591 Beijing XINHUA in English
1237 GMT 26 Jan 91*

[Text] Beijing, January 26 (XINHUA)—China has closed or merged over one-third of the country's firms to streamline the channels of circulation during the past two years of nation-wide economic rectification, according to the State Administration for Industry and Commerce today.

Administration statistics show that since late 1988, 103,772 firms have been closed or merged. This figure represents 35.2 percent of the country's total number of firms. Over 50 percent of the firms which were closed or merged were from commercial departments.

An administration spokesman said that in addition, 11,284 firms belonging to party or government institutions were closed or merged. They accounted 17.3 percent of the total of the firms closed or merged over the past two years. The remaining firms were turned over to economic departments.

Over 41,000, or 96.7 percent, of party or government officials, who held concurrent posts with various firms, resigned one job during the period.

The administration outlawed 32 illegal national organizations, and over 89,000 various economic cases were handled during the two-year rectification period.

The spokesman said that economic order and environment in the country's commercial departments have been greatly improved.

Statistical Data on Major Indexes in 1990

*HK1202092091 Beijing RENMIN RIBAO in Chinese
5 Feb 91 p 2*

[“Statistical Data on Major Economic Indexes in Various Areas in 1990 (Provided by the State Statistical Bureau)”]

[Text]

Region	Volume of Fulfilled Investment in Fixed Assets			
	Current (100 Million yuan)	Increase Over Previous Year (%)	Including Local Projects	
			Current (100 million yuan)	Increase Over the Previous Year (%)
Total National Statistics	2530.50	10.1	1400.39	10.6
Beijing	125.33	16.6	63.24	15.9
Tianjin	63.17	3.7	39.17	8.0
Hebei	103.86	7.9	53.62	14.4
Shanxi	84.42	13.1	34.28	19.7
Inner Mongolia	48.95	17.7	25.03	9.8
Liaoning	173.06	0.4	101.36	-9.0
Jilin	51.60	7.3	29.35	1.4
Heilongjiang	99.86	2.2	43.56	-14.3
Shanghai	180.10	3.7	104.80	13.3
Jiangsu	114.50	1.4	75.86	10.7
Zhejiang	66.02	5.0	43.30	2.4
Anhui	60.64	7.2	35.54	9.5
Fujian	54.00	11.3	39.97	11.5
Jiangxi	42.06	9.7	28.62	20.5
Shandong	139.10	9.2	81.98	16.0
Henan	84.81	1.1	38.09	1.5
Hubei	84.11	20.7	58.86	21.7
Hunan	65.12	11.1	37.04	8.1
Guangdong	222.27	17.0	180.87	23.5
Guangxi	35.12	-12.4	27.55	-9.8
Hainan	25.90	16.4	20.37	25.6
Sichuan	144.12	10.6	85.92	14.7
Guizhou	32.24	10.9	16.12	1.3
Yunnan	45.57	21.3	29.46	22.0
Tibet	6.70	52.1	4.40	28.2
Shaanxi	61.26	1.8	30.02	-0.7
Gansu	42.05	14.1	20.39	27.0
Qinghai	13.55	-10.7	6.64	9.9
Ningxia	14.91	21.0	8.49	11.9
Xinjiang	60.16	30.3	20.55	-2.3

Region	Balance and Increased Amount of Bank Loans at Year End			
	Balance (100 million yuan)	Amount Increased Over the Beginning of Year (100 million yuan)	Including: Loans in Fixed Assets	
			Balance (100 million yuan)	Amount Increased over the Beginning of Year (100 million yuan)
Total National Statistics	15140.42	2731.14	2214.89	438.92
Beijing	552.15	72.02	94.69	14.70
Tianjin	386.34	67.23	49.12	12.42
Hebei	631.31	106.53	75.62	11.32
Shanxi	356.90	75.87	57.00	17.44
Inner Mongolia	272.88	60.12	33.10	5.69
Liaoning	922.77	180.60	131.70	31.18
Jilin	506.50	121.74	54.66	11.19

Region	Balance and Increased Amount of Bank Loans at Year End (Continued)			
	Balance (100 million yuan)	Amount Increased Over the Beginning of Year (100 million yuan)	Including: Loans in Fixed Assets	
			Balance (100 million yuan)	Amount Increased over the Beginning of Year (100 million yuan)
Heilongjiang	650.95	125.18	71.46	15.99
Shanghai	807.95	150.97	121.30	36.46
Jiangsu	822.09	133.18	84.83	12.98
Zhejiang	479.77	79.29	56.79	9.88
Anhui	400.71	76.14	55.14	9.68
Fujian	319.62	51.51	57.02	7.68
Jiangxi	338.83	64.95	51.45	9.12
Shandong	933.06	168.40	128.06	27.88
Henan	634.70	123.08	72.14	19.29
Hubei	723.51	130.05	101.03	13.15
Hunan	458.59	73.96	51.54	8.64
Guangdong	1273.51	183.25	162.69	24.90
Guangxi	278.05	40.31	54.97	6.25
Hainan	117.85	20.88	19.37	2.86
Sichuan	770.56	143.73	107.22	22.60
Guizhou	172.75	30.52	33.61	8.11
Yunnan	250.39	37.87	37.13	5.00
Tibet	16.67	2.72	0.22	-0.03
Shaanxi	385.51	79.89	72.03	15.36
Gansu	202.08	40.01	43.07	12.43
Qinghai	72.22	13.26	22.86	3.61
Ningxia	69.54	14.54	17.72	3.00
Xinjiang	234.29	60.69	45.58	8.00

Region	Total Wages of Workers and Staff Members		Per Capita Labor Productivity	
	Current (100 million yuan)	Increase Over Previous Year (%)	Current (yuan/person)	Increase Over the Previous Year (%)
Total National Statistics	2960.00	13.0	18917	0.8
Beijing	111.16	15.4	27676	0.2
Tianjin	69.46	8.5	26688	-0.7
Hebei	127.63	11.3	15623	1.5
Shanxi	90.99	14.1	12218	0.1
Inner Mongolia	65.97	11.9	11461	0.4
Liaoning	217.45	12.1	18501	-2.5
Jilin	94.54	9.4	14932	-1.8
Heilongjiang	152.23	8.0	14098	-2.0
Shanghai	144.39	10.1	33624	-0.6
Jiangsu	184.19	11.4	25268	6.4
Zhejiang	102.00	8.0	22161	2.8
Anhui	86.17	13.7	17206	1.1
Fujian	66.21	15.7	17820	-0.1
Jiangxi	63.78	9.3	13715	0.3
Shandong	160.53	15.0	22068	2.0

Region	Total Wages of Workers and Staff Members		Per Capita Labor Productivity	
	Current (100 million yuan)	Increase Over Previous Year (%)	Current (yuan/person)	Increase Over the Previous Year (%)
Henan	121.57	11.8	15372	1.1
Hubei	128.93	11.4	20165	-3.1
Hunan	110.40	12.5	16050	0.7
Guangdong	222.04	10.8	29521	8.9
Guangxi	61.45	10.0	17357	5.2
Hainan	20.34	20.9	15143	15.8
Sichuan	185.12	13.5	14561	-0.8
Guizhou	40.01	13.8	15152	3.3
Yunnan	60.35	14.7	18866	5.8
Tibet				
Shaanxi	75.15	10.3	15512	-0.3
Gansu	54.77	12.0	16952	2.2
Qinghai	16.53	5.9	14860	3.5
Ningxia	14.52	10.0	14306	4.3
Xinjiang	66.90	13.9	15962	1.4

Region	Cost Reduction Rate of Comparable Manufactured Goods (%)		Profit and Tax Rate on Sales of Manufactured Goods (%)			
	Current	Previous Year	Current	Previous Year	Including: Profit Rate on Sales	
					Current	Previous Year
Total National Statistics	-7.0	-22.4	13.45	17.08	2.61	6.42
Beijing	-6.8	-17.1	17.00	21.02	8.77	13.13
Tianjin	-5.3	-25.3	10.56	13.61	4.34	6.79
Hebei	-7.6	-25.3	9.20	15.38	2.94	8.98
Shanxi	-5.2	-21.2	14.11	15.86	4.80	8.10
Inner Mongolia	-7.0	-21.2	14.63	17.94	5.05	8.22
Liaoning	-9.6	-24.8	9.50	16.35	1.19	7.56
Jilin	-6.1	-24.4	12.22	17.34	3.59	8.22
Heilongjiang	-6.2	-22.6	9.73	13.42	1.63	5.43
Shanghai	-11.8	-21.0	12.69	15.96	5.91	9.15
Jiangsu	-1.9	-24.5	7.90	10.77	2.64	5.57
Zhejiang	-1.2	-26.7	9.93	13.37	3.64	6.96
Anhui	-3.7	-21.7	12.50	14.02	2.24	5.90
Fujian	-1.6	-21.7	12.75	15.98	5.58	8.95
Jiangxi	-3.6	-24.3	8.37	13.47	1.25	6.05
Shandong	-5.0	-24.7	10.26	14.76	3.20	7.12
Henan	-9.8	-28.3	12.27	14.88	4.91	7.53
Hubei	-5.5	-21.5	13.35	16.94	4.77	8.82
Hunan	-4.2	-20.4	9.21	14.66	2.39	7.42
Guangdong	0.3	-26.8	9.75	13.05	1.89	5.49
Guangxi	-1.7	-17.9	12.59	16.05	4.22	7.47
Hainan	-3.7	-18.7	7.55	14.29	2.48	9.97
Sichuan	-6.7	-20.0	9.66	14.61	3.08	8.08
Guizhou	-6.2	-19.8	13.57	17.52	4.26	8.76
Yunnan	-7.5	-19.6	16.55	19.53	6.46	10.27

Region	Cost Reduction Rate of Comparable Manufactured Goods (%)		Profit and Tax Rate on Sales of Manufactured Goods (%)			
	Current	Previous Year	Current	Previous Year	Including: Profit Rate on Sales	
					Current	Previous Year
Tibet						
Shaanxi	-6.1	-22.5	11.77	15.86	4.73	8.77
Gansu	-4.4	-22.3	12.16	16.32	4.51	8.51
Qinghai	-11.1	-20.2	7.18	14.26	-1.56	5.00
Ningxia	-5.6	-17.4	12.12	16.60	4.38	8.57
Xinjiang	-5.3	-22.1	13.37	17.48	5.15	9.27

Region	Profit Rate on Industrial Funds		Energy Consumption for Every 10,000 Yuan jWorth of Industrial Output Value (Tonnes of Standard Coal)		
	Current	Previous Year	Current	Previous Year	Energy Conservation rate (%)
Total National Statistics	13.76	19.39	4.73	4.83	2.07
Beijing	20.71	26.07	3.76	3.99	5.76
Tianjin	15.88	22.38	3.08	3.14	1.91
Hebei	10.15	20.40	7.33	7.31	-0.27
Shanxi	13.41	17.59	10.44	10.64	1.88
Inner Mongolia	11.58	15.37	9.35	9.04	-3.43
Liaoning	9.23	19.10	6.43	6.27	-2.55
Jilin	10.35	17.70	7.37	7.28	-1.24
Heilongjiang	8.02	12.97	6.30	6.30	0.00
Shanghai	24.50	33.46	2.19	2.22	1.35
Jiangsu	11.70	17.85	2.63	2.83	7.07
Zhejiang	14.42	21.63	2.64	2.69	1.86
Anhui	14.66	19.09	5.14	5.27	2.47
Fujian	15.39	22.24	3.25	3.45	5.80
Jiangxi	8.86	16.73	4.99	5.16	3.29
Shandong	13.55	23.30	4.23	4.35	2.76
Henan	14.67	20.76	6.02	6.19	2.74
Hubei	14.37	21.36	4.12	4.08	-0.98
Hunan	9.24	18.65	5.18	5.38	3.72
Guangdong	11.42	16.85	2.88	2.93	1.71
Guangxi	14.17	20.58	4.77	4.90	2.65
Hainan	4.78	11.17			
Sichuan	9.80	16.42	6.01	6.03	0.33
Guizhou	10.46	15.07	8.29	8.39	1.19
Yunnan	16.96	20.38	6.42	6.45	0.47
Tibet					
Shaanxi	10.81	15.90	4.45	4.50	1.11
Gansu	8.54	13.72	8.44	8.69	2.88
Qinghai	3.91	8.67	8.78	9.78	10.22
Ningxia	9.24	14.91	11.65	11.73	0.68
Xinjiang	10.64	13.73	8.03	8.13	1.23

N.B.: Statistics contained in this table are initial ones (Taiwan Province is not included). The Volume of Fulfilled Investment in Fixed Assets refers to investment made by units under the ownership of the whole people in capital construction, renovation, and transformation. The total national statistics of this index also include nonregional investment figures. The scope of statistics and methods of calculation are not identical to the planned size designed by the State Planning Commission for various localities. Statistics calculated in terms of planned items will be released separately. The total national statistics of Balance and Increased Amount of Bank Loans also include statistics of the People's Bank of China headquarters, the Communications Bank of China, and CITIC Industrial Bank. The Total Wages of Workers and Staff Members include wages, various bonuses, and subsidies of employees in units under the ownership of the whole people, units under collective ownership in urban and rural areas, and various jointly owned units. The scope of statistics of Per-Capita Labor Productivity is limited to industrial enterprises with independent accounting under the ownership of the whole people. The scope of Statistics of Profit and Tax Rate on Sales of Manufactured Goods, Profit and Tax Rate on Industrial Funds, and Cost Reduction Rate of Comparable Manufactured Goods is limited to budgetary industrial enterprises under the ownership of the whole people. The regional statistics of these three indexes is limited to local budgetary industrial enterprises. The "-" sign in the column of Cost Reduction Rate of Comparable Manufactured Goods refers to additional costs. Industrial Energy Conservation Rate is limited to industrial enterprises under the ownership of the whole people, as well as under collective ownership.

PROVINCIAL

Problems Separating Taxes From Profits in Guangdong

91CE0197A *Chongqing TIGAI XINXI* [SYSTEM REFORM NEWS] in Chinese No 21, 5 Nov 90
pp 11-12

[Article by Dong Yiwen (5516 3015 2429): "Main Difficulties and Suggestions for Separating Taxes and Profits in Guangdong"]

[Text] Recently the Guangdong Provincial CPC Committee Policy Research Office made some surveys and studies of the feasibility of separating taxes and profits in state-owned industrial enterprises throughout the province, made an analysis of several major difficulties that exist, and put forward some views and suggestions:

1. Limited Suitability of "Pilot Project Plan"; Small Scale of Applicability

The data that the Guangdong Department of Finance provided showed that 868 of the 2,217 state-owned industrial enterprises covered by the budget throughout the province, i.e., 39 percent, did not qualify to take part

in the separation of taxes and profits because they made minuscule profits or showed losses in 1988. (The "pilot project plan" required that enterprises final financial accountings for 1988 be used as the basis for the study.) The 1,349 enterprises that were eligible to take part in a pilot project for the separation of taxes and profits accounted for 61 percent of the total number. Of these 1,349 enterprises, 805, or 60 percent, required that tax departments either refund taxes, or reduce the 35 percent income tax on profits so that they would be able to maintain a reasonable after-tax profit retention level and be able to make current year loan repayments. Only 544, or 40 percent of enterprises, were able to maintain the current year profit retention level, make current year loan repayments, and also be able to pay the treasury a certain contracted amount of profit.

Calculations made in Zhongshan and Guangzhou cities showed that an overwhelming majority of enterprises paid less than 35 percent of their profits in income taxes. Therefore, the suitability of the "pilot project plan" for regular separation of taxes and profits is limited in scope.

2. Separation of Taxes and Profits Will Markedly Increase Enterprises Burdens; Many Enterprises Unable To Bear Them.

State implementation of the "double tight" policy [tight fiscal and monetary policies] at the end of 1988 for the purpose of improving the economic environment and rectifying the economic order, as well as the market slump and poor economic returns face enterprises with numerous new difficulties. They lack accumulations and ability to undertake self-development.

If the real difficulties that enterprises are facing at the present time are not solved before instituting reforms for the separation of taxes and profits according to the "pilot project plan," nothing more being done than lowering the enterprise income tax rate of the second step in the former change from profit payments to tax payments from 55 to 35 percent, and instituting after-tax contracting of profit payments, this 35 percent tax rate will still be too heavy a burden for state-owned enterprises in Guangdong Province. Post-reform payments will actually increase substantially over what enterprises currently contract to pay. This, plus a change to repayment of loans after taxes instead of before taxes, will mean that enterprises' burdens will be much greater than under the current contract system. The 1,349 state-owned industrial enterprises covered by the budget throughout the province that were eligible to take part in the separation of taxes and profits in 1988 realized profits totaling 2.217 billion yuan. Under the prevailing contracting method, they paid an actual 490 million yuan in taxes to the treasury, which was 22.13 percent of profits realized. The remainder was used for enterprise profit retention and loan repayments. Were the separation of taxes and profits to be instituted, they would have to pay 572 million yuan in income taxes, and pay an additional 212 million yuan in after-tax profits, the two items totalling 784 million yuan. This would be 294 million more than

they are presently paying for a 60 percent increase. Their payments would amount to 35.37 percent of profits realized for a 13.24 percentage point increase over what they pay under the prevailing contract system. At this rate, enterprises would simply have no profit surplus on which to contract the payment of after tax profit, so after-tax profit contracting would exist in name only.

3. The Separation of Taxes and Profits Will Cause Even Greater Difficulties for Enterprises in the Repayment of Loans. After-Tax Loan Repayment Will Seriously Impair Enterprises' Technical Transformation.

Industry in Guangdong Province has depended on loans for its development during the past 10 years. Enterprises' loan repayment burdens are extremely heavy. In 1988, state-owned industrial enterprises in the province covered by budget owed 8.023 billion yuan in capital construction and special purpose loans (the amount increasing to 9.38 billion yuan in 1989). Currently, enterprises depend heavily on policies that permit before-tax loan repayment and reductions or exemptions from taxes for the repayment of loans to repay their heavy debts. If before-tax loan repayment is to be abolished, a satisfactory means will have to be adopted to create conditions for phasing out such repayment. If the "pilot project plan" methods are employed, at most only one-half of old loans can be paid before taxes, and all new loans will have to be repaid after taxes, this system is to be instituted within one year. In the future, a substantial number of enterprises that are mired in debt will find self-development difficult; some will have to carry old debt burdens on their backs for a long time to come; and some of them may be dragged down by debt. Although after-tax debt repayment will effectively contain enterprises' "investment starvation" and their inflation of the scale of credit, because of their reduced ability to repay loans after taxes, enterprises will tend to be conservative about future investment in technical transformation. This will hurt their reserve strength for technical progress and development. For a large number of enterprises that are losing money or making minuscule profits, inability to invest in technical transformation will mean that reversing losses and increasing profits will be doubly difficult.

4. Lack of Dovetailing of Attendant Reform Measures and Policies

1. No assets control system has been built, and there is no clear-cut responsibility for level-by-level assets control. Important questions such as who is to bear state assets investment risks, and who is to be responsible for state assets returns and added value remain ambiguous. With the institution of a separation of taxes and profits, enterprises may demand that the ones who do the investing should be the ones to enjoy the returns. However, current law is not specific about jurisdiction over new assets and the distribution of returns from them resulting from enterprises' own investment after after-tax repayment of loans.

2. Policy authority for the initiation of major technical transformation projects in going enterprises remains concentrated in the hands of governments and departments at all levels. Enterprises themselves are rarely able to be principal investors. Unless this situation is changed, the hardening of restraints on investment will be difficult. If the operators of enterprises are permitted to bear complete responsibility for investment in assets, particularly the risks in substantial investment and responsibility for added value, this cannot be justified in terms of either theory or practice.

3. Whether an enterprise makes a profit is controlled today, to a certain extent, by the government's conduct. The intention in separating profits and taxes, implementing a uniform income tax rate, is to even out tax burdens, and equalize competition. However, under the prevailing "two track" price system, which is an unfair price system, a situation exists among enterprises in which state policies tilt in favor of some and do not tilt in favor of others, some being "protected," and others not being "protected," which may very well produce new inequities.

"After-tax contracting" in a situation in which no scientific appraisal of state-owned assets has been made and the amount of accumulated wealth is not clear means that both the contracting base figures and the prevailing contracting system lack a scientifically rational basis that craters an unequal sharing of weal and woe among enterprises.

Since a definite disparity exists between the "pilot project plan" and actual practice in Guangdong Province, Guangdong has suggested that necessary changes be made to the "pilot project plan" when pilot projects are run.

1. *Lowering of Enterprises' Income Tax Rates.* Development of state-owned industries in Guangdong during the past several years shows a 35 percent income tax burden to be much too high. A lowering to 25 percent would be more appropriate. Since the province has numerous small enterprises, an excess progressive tax system would be better than a percentage tax rate. This would both avoid excessive treasury refunds and would also help solve the problem of many enterprises having no after-tax profits left on which to contract payments to the state or inability to repay loans.

2. *Moderate Readjustment of Methods of Figuring Energy and Transportation Funds and Budget Regulation Funds.* Since base figures for calculating levies for these two funds after the separation of profits and taxes will be greater than previously, enterprises will be hard put to accept them. Two methods may be used to solve the problem: One is the return of special purpose funds after payment of income taxes, using the profit after return of borrowed funds to calculate the levy for the two funds. Second is to use as a base figure both the amount paid for energy and transportation funds and the amount paid the budget regulation fund before the separation of taxes

and profits, setting fixed amount or incremental increase contract quotas to be paid each year. This would avoid the double burden on enterprises following the change from repayment of loans before taxes to repayment of loans after taxes.

3. *Equitable Solution to the Problem of Enterprise Repayment of Bank Loans.* After tax loan repayments should be viewed from the angle of the new loans that enterprises contract following the separation of taxes and profits. One feasible method is to use "the old method on old loans and a new method on new loans."

The after-tax loan repayment policy should have a certain amount of flexibility with regard to the "new loans" of enterprises following the separation of taxes and profits, the before-tax repayment of loans being permitted in the case of investments that are in keeping with state industrial policy and economic development strategy, and in the case of loans incurred for projects that produce great social benefits but are lacking in economic benefit. For some investment projects that produce economic returns for which substantial investment is required, the recovery period long, and that exceed enterprises real repayment capabilities, there should likewise be no "arbitrary uniformity" whereby all are required to repay loans after taxes. Of course, projects for which before-tax loan repayment and proportional before-tax loan repayment is permitted, the verification and approval of financial and tax departments would be required, and strict control exercised.

4. *Formulation of Corresponding Policy Measures To Help Support Pilot Project Enterprises' Technical Transformation Projects.* First should be the use of differential tax rates, a relatively low tax rate policy being applied to key technical transformation projects, or the government applying a discount. Second is acceleration of depreciation.

5. *While Running Pilot Projects for the Separation of Taxes and Profits, Same Level State-Owned Assets Control Units Should Be Established.* There should be better control of state assets and transportation added value for the shaping of a new pattern in which different forms of state and enterprise profit distribution co-exist. In addition to the methods used for the separation of taxes and profits, leasing with the collection of rent may be applied to small state-owned enterprises. Enterprises that do not possess requisite conditions for the separation of taxes and profits, enterprises who make only minuscule profits or operate at a loss, or some special industries should institute variable after-tax contracting with the collection of contracting fees. Enterprises suited to the stock share system operation may take part in the sharing of profits as stock share owners.

Guangdong Financial Reforms Mirror Reforms Nationwide

91CE0197B Chongqing TIGAI XINXI [SYSTEM REFORM NEWS] in Chinese No 21, 5 Nov 90
pp 17-18

[Article by Fu Guanghai (0102 1639 3189): "Status of Financial Reform Pilot Projects in Some Guangdong Cities"]

[Text] Financial system reform got off to a fairly early start in Guangdong Province. The financial system reform situation there reflects, to a certain extent, both the situation and the problems in financial reform pilot projects throughout the country in recent years. A summary is provided below.

1. The pilot project cities of Guangzhou, Shantou, Zhanjiang, and Huizhou scored substantial achievements in the active promotion of financial system reform.

First was the launching of a general exchange of credit within the same trades for the steady development of financial markets. As of the end of 1989, all financial institutions in Guangzhou had exchanged 5 billion yuan, allocated \$445 million in foreign exchange, and made individual allocations of HK\$1 million in foreign exchange. Enterprises issued debentures totalling \$253 million, and did 146 million yuan of business in negotiable securities of various kinds. Following authorization, Shenzhen City issued negotiable securities of various kinds having a value of more than 600 million yuan. Market transactions totaled more than 100 million yuan. Currently four companies in Shenzhen are issuing stock share certificates; and there is one securities company and two trust companies dealing in negotiable securities.

Second was vigorous development of financial institutions, primarily under public ownership. Most of the pilot project cities in Guangdong established various kinds of financial institutions including national banks (People's Banks and various specialized banks), regional banks (the Guangdong Development Bank), joint-stock banks (the Bank of Communications), insurance companies and trust investment companies, finance companies, and securities companies. This was part of the preliminary shaping of a financial organizational system in which the central bank was the leader, specialized banks formed the main body, and other financial institutions played a complementary role.

Third was the establishment of foreign exchange allocation centers, which provided powerful support for the development of an externally oriented economy. Guangzhou, Zhanjiang, Huizhou, and Shantou set up foreign exchange allocation centers. Since the founding of the Zhanjiang Municipal Foreign Exchange Allocation Center, a total of \$90 million in foreign exchange has been allocated. This includes more than \$80 million for the importation of equipment, materials used in agriculture, and imported raw and processed materials.

Fourth was active introduction of a competition mechanism to perform cross operations. Acting under People's Bank supervision, the specialized banks in Guangzhou gradually began to conduct cross operations including the handling of renminbi savings deposits, foreign exchange savings deposits and loan work. These cross operations caused the specialized banks to improve the quality of their services, and actively soaked up savings for an expansion of sources of funds.

Fifth was the exploration of means to make the specialized banks function like businesses. The Bank of Agriculture system experimented with business-style management, all levels of the Bank of Agriculture instituting "three preservations and one link." This meant preservation of macroeconomic control norms, preservation of benefits from the use of funds; preservation of profits for banks, and encouragement of the linking of funds and economic returns. Other specialized banks experimented with branch banks serving as basic accounting units, each main office setting the loan supplement rate [1073 5943 3764], the cost expense rate, and the profit retention rate, each branch bank instituting a branch bank responsibility system and a management by objective responsibility system, with each savings bank trying out a contract operating responsibility system.

2. Major Problems Found in the Financial Reform Pilot Projects in Some Cities in Guangdong

1. After specialized banks tried out enterprise-style management, there was undue emphasis on making a profit to the neglect of social benefits. First, in order to improve their economic returns, each sub-branch and branch bank raised their interest rates, some pilot project banks even going as far as increasing loan interest rates in disguised ways, such as reducing the loan period, increasing overdue penalties, and converting funds within plan to funds not covered by plan, thereby adding to enterprises' burdens. Second was the use of credit cooperatives' funds in making loans. Third, after the Bank of Agriculture instituted level-by-level contracting, some places changed former upper and lower level bank normal fund disbursements to short term lending and borrowing, which increased the burdens of grassroots level banks. Fourth, in order to increase returns, some pilot project banks collected only interest from enterprises without collecting the principle, or even collected interest for giving enterprises a loan. This resulted in an ever-increasing number of risky loans and bad debts.

2. *While developing multiple forms of financial institutions, too many financial network outlet points were added in indiscriminate development.* The various pilot project cities in Guangdong developed many different kinds of financial institutions. With the development of cross operations, all the specialized banks generally increased the number of their outlet points to bring in more savings deposits. These financial network outlet points were too numerous and too indiscriminate. To a certain extent, they dispersed funds and increased internal costs of the financial institutions.

3. *In the process of reforming the financial system, control over financial procedures was neglected, resulting in a chaotic situation in financial procedures.* One example was when cross operations and competition were allowed, problems arose with enterprises avoiding repayments and financial institutions incurring internal costs. With the development of nonbank financial institutions, problems occurred with the breaking of rules and regulation in operating, and the dispersal of funds. The development of financial markets caused an increase in the cost of funds and expansion of credit.

4. *The state has adopted several policies since 1989 that have placed nascent financial reform between a rock and a hard place.* One example was cancellation of funds exchanges within the same industry, and the closing of financial markets, which were extremely detrimental to the acceleration of funds turnover, improvement of funds utilization rates, and development of the economy. Another example had to do with nonbank financial institutions. The main office ruled that cities in which the gross output value of industry and agriculture exceeded 10 billion yuan could keep one nonbank financial institution. However, the actual situation today is that every jurisdiction has devoted several years of effort to setting up quite a few financial and finance companies, these companies now forming a huge assets and liabilities relationship and playing an important role in the externally oriented economy. Now that these companies are being abolished, no clear policies exist for handling these assets and liabilities relationships, so local government feel they are in an extremely bad spot.

FINANCE, BANKING

Collectors Recover Over 11 Billion Yuan in Unpaid Taxes

OW0702120991 Beijing XINHUA Domestic Service
in Chinese 0214 GMT 6 Feb 91

[Text] Beijing, February 6 (XINHUA)—According to data provided by the office of the State Council's Leading Group for Joint Collection of Tax Arrears, more than 11 billion yuan in tax arrears were recovered in the last few months of 1990, thanks to joint efforts at all levels and in all quarters. The recovery helped fulfill the state plan of financial revenue, narrow the balance of payments, and maintain steady economic growth. Twenty-two localities have now collected over 50 percent of taxes in arrears. Of them, Harbin, Jiangsu, Beijing, and four other localities have achieved a recovery rate of 80 percent or more.

Slow economic growth, sluggish sales, stockpiling of products and finished goods by some enterprises, and fund shortages last year created new problems in efforts to collect tax arrears and caused monthly increases in unpaid taxes. Leading State Council comrades repeatedly issued important opinions urging governments in all localities to give priority to collection efforts. Collection agencies at all levels and financial, taxation, and customs

personnel surmounted difficulties, worked diligently, and made remarkable contributions to the collection efforts. In collecting tax arrears, planning, banking, materials supply, economic, trade, and other relevant departments worked closely to lend support and ensure smooth progress.

A responsible comrade of the State Council's Leading Group for Joint Collection of Tax Arrears said: Positive economic development is expected to continue this year. However, there is still the possibility of tax default, and the sums of unpaid taxes are likely to increase. All localities should take the problem of tax default seriously at the beginning of the year. They should strengthen leadership, expand collection efforts, earnestly sum up experience, take effective measures, concentrate on clearing tax arrears, and work thoroughly, meticulously, and competently.

Guangzhou To Speed Up Reform of Financial System

*OW0802192291 Beijing XINHUA in English
1509 GMT 8 Feb 91*

[Text] Guangzhou, February 8 (XINHUA)—The reform of financial system will be a focal point of the reform drive in south China's Guangzhou city during the state Eighth Five-Year Plan period (1991-1995), according to Lei Yu, vice-mayor of the city.

Lei stressed that the reform of financial system is urgently needed for the city's economic construction and development of its export-oriented economy.

During the 1991-1995 period, Lei said, the city's investment in fixed assets will reach 30 billion yuan (about six billion U.S. dollars), which will mainly be used for construction of large and medium-sized productive projects, technical transformation of old enterprises, and construction of some infrastructural facilities. Of the total investment, 2.5 billion U.S. dollars will come from foreign funds.

Lei released several concrete measures to enhance financial reform, which include promoting close contact between deposits and loans, and establishing a stock market and local development banks.

During the first half of this year, the city will set up a market of means of production in foreign exchanges to serve foreign-funded enterprises, and a market of futures.

Guangzhou was listed as one of the country's financial reform pilot sites in 1986. It has since achieved much in regards to price reform and the circulation of currencies.

Presently, the city has more than 700 foreign-funded enterprises and 200 joint-stock enterprises.

Guangzhou Bank Uses Financial Communications System

*OW0902135291 Beijing XINHUA in English
1340 GMT 9 Feb 91*

[Text] Guangzhou, February 9 (XINHUA)—The Guangzhou branch of the Bank of China in south China's Guangdong Province started using the data communication system of the Society for Worldwide Interbank Financial Telecommunications (SWIFT) Friday.

The Guangzhou branch is the second, after the Shanghai branch, to implement the system.

Huang Yinchu, president of the Guangzhou branch, said that the one-month trial operation of the data communication system of the SWIFT showed that the system make handling the foreign exchange business much more rapid, secure, and reliable. He added that the system will play a great role in accelerating the province's foreign trade business.

Huang noted that this year, the Guangzhou branch will install the special-purposed software of the SWIFT at its computer center to further improve the data communication system. Besides, he added, other branches of the Bank of China near the Guangzhou branch such as the branches in the cities of Zhuhai, Shenzhen and Shantou, are also expected to start using the SWIFT system.

Founded in May, 1973 and based in Brussels, Belgium, the Society for Worldwide Interbank Financial Telecommunications is a non-profit international organization in banking cooperation. It provides its members with modern computer data communication methods.

The Bank of China first started using the SWIFT system in May 1985.

MINERAL RESOURCES

Xinjiang Effectively Increases Gold Production

*OW3101022991 Urumqi XINJIANG RIBAO in Chinese
18 Jan 91 p 1*

[Text] Xinjiang's gold production last year exceeded the annual target by 48 percent, an increase of 67.37 percent over the amount in 1989, setting an all-time high. This region used to rank second to last in the country's gold production. It now ranks ninth.

For many years, central and regional authorities have paid a great deal of attention to the development of gold production in Xinjiang. They have put into effect a series of preferential and protective policies, which has resulted in a rapid increase in gold output.

In terms of gold production, the autonomous region has adhered to the principle of combining state-owned and locally owned mines and mining gold in rock formations and sandy areas. It has cracked down on individual

mining, thus enabling state-run mines to develop rapidly. Twenty-six large and small gold mines have been built throughout Xinjiang. The 1990, the gold output of Altay Prefecture increased by 66.57 percent over that of 1989, exceeding the annual plan by 161.52 percent. The amount of gold sold to the state by the prefecture in 1990 accounted for 41.76 percent of gold sold to the state by the entire region. By instituting a technical transformation and tapping potential, key state-run gold mines have greatly upgraded their production capacity. In 1990, their output rose 25 percent over that of 1989. Xinjiang's Hatu Gold Mine has been expanded to become the biggest gold mine in northwest and southwest China.

State Council Issues Circular on Mineral Exploitation

OW0102173291 Beijing XINHUA in English
1422 GMT 1 Feb 91

[Text] Beijing, February 1 (XINHUA)—The State Council, China's highest governing body, has listed tungsten, tin, antimony and ionic rare earth as special minerals under state protection.

A State Council circular, which reached XINHUA today, orders the State Planning Commission, with the help of the China National Nonferrous Metals Industry Corporation (CNNMIC) and the Committee in Charge of Rare Earth Utilization and Exploitation under the State Council (CREUE), to work out a plan for the long- and medium-term exploitation of four kinds of mineral resources.

The circular stipulates that the central government enjoys top priority in exploitation of the above-mentioned minerals. The exploitation should be conducted by state-owned or collectively-owned mines in areas where there are no conditions for running state-owned mines. Individuals are prohibited from engaging in such exploitation.

State- or collectively-owned mines have no right to co-operate or run joint ventures with foreign firms in exploiting ionic rare earth. No unit or individual is allowed to invite any non-resident of the People's Republic of China to inspect ionic rare earth mines or provide them with data, mineral samples or technology connected with such mines without permission from the State Council, the circular says.

Attempts to develop deposits, no matter whether state or collectively-owned, of the four minerals should be preceded by permission from the CNNMIC and the CREUE.

The circular ordered the examination of tungsten, tin, antimony and ionic rare earth mines opened before promulgation of the circular.

The state prohibits collectively-owned enterprises and individuals from smelting or processing the four minerals.

Products made of tungsten, tin, antimony and ionic rare earth will be purchased by units designated by the CNNMIC, the CREUE and the State Administration for Industry and Commerce (SAIC) under unified state plans.

Smuggling of the four minerals will be dealt with severely, the circular says.

The circular aims to put an end to reckless exploitation of the four minerals.

New Mineral Deposits Discovered in Southwest

OW2402225391 Beijing XINHUA Domestic Service
in Chinese 2109 GMT 23 Feb 91

[By reporter Zhu Youdi (2612 1635 2769)]

[Text] Beijing, February 24 (XINHUA)—Important progress has been made in geological prospecting and scientific research in the Jisha Jiang, Lancang Jiang, and Nu Jiang area of southwest China. The area has become one of China's important bases for producing precious, nonferrous, and rare metals.

According to a briefing by the Ministry of Geology and Mineral Resources, after exploration and careful study, more than 50 prospecting zones have been newly designated or expanded in five mineral belts and 19 secondary mineral belts in the area. These zones have been determined to have gold, lead, zinc, and tin deposits, as well as minerals containing large amounts of gold and silver. It has been initially verified that six of the zones contain large deposits; four have been determined to contain more deposits than originally thought.

The Jinsha Jiang, Lancang Jiang, and Nu Jiang area is where two ancient continents met; it is in a special location, and its geological structure is very complex. The southern and northern ends of the two ancient continents and different separated areas have a different history of geological development and mineral formation. As a result, different mineral deposits have formed. For example, the northern end of the south continent contains mainly tin and wolfram deposits, while the southern end of the north continent contains mainly precious metals, copper, lead, and zinc. Most of the precious metals and nonferrous metal deposits in the three-river area are closely related to volcano activity and magma and are also greatly influenced by its geochemical background and mineral formation process.

According to a briefing, important results have been made in the study of gold deposits in the northern part of Ailao Shan, where a 60 kilometer zone of gold deposits has been found. Due to the discovery of large and medium-sized gold, platinum, and palladium deposits, Yunnan Province decided to make Ailao Shan a national base for gold and precious metal production. This project will become one of the province's 10 major projects. A pyrite belt has been discovered in the volcanic rock of the Jinsha Jiang zone; it contains quite a

large amount of gold, and prospects for gold mining are good. In the Lanping-Simao mineral zone, more Lanping lead and zinc deposits have been discovered, thus increasing prospects for finding mercury, tellurium, arsenic, and gold deposits. The lead and zinc industry and deposits of this mineral zone rank first in the country. New mineral deposits have been discovered in the Paomaping, Caizidi, and Baiyangchang mineral zones, thus increasing verified deposits. New tin and rare metal deposits have been discovered in the Shengliang area, thus increasing prospects for finding tin, particularly hardened tin deposits, and rare metal deposits. Fourteen new prospecting zones have been designated in this area.

At the same time, prospects for mining precious metals and gold-containing minerals in northeastern Tibet are

also good. After studying copper and molybdenum deposits, it has been verified that the deposits contain a fairly large amount of gold, platinum, [qian 6870], silver, and [chuan 6861]. In the northern part, along the Lancang Jiang, tin and wolfram deposits have been discovered. In addition, achievements have been made in the study and prospecting in the western part of Sichuan, the Li Jiang-Tali area in western Yunnan, the Bomi-Chayang area in eastern part of Tibet.

January Metals, Minerals Imports Listed

HK2602120891 Beijing CEI Database in English
26 Feb 91

[Text] Beijing (CEI)—Following is a list showing China's import volume of metals and minerals in January 1991, released by the General Administration of Customs:

Item	Unit	January 1991	January 1990
Iron ore	ton	532,700	739,553
Coal	ton	64,183	119,976
Steel Billets and roughly forgings	ton	14,966	24,701
Rolled steel	ton	224,678	410,467
Steel wire rod	ton	11,493	42,644
Steel angles, shapes and sections	ton	4,449	23,570
Seamless steel pipe	ton	51,121	66,100
Iron and steel wire	ton	769	6,106
Copper and alloy	ton	4,105	2,850
Alum and alloy	ton	6,719	22,711
Zinc and alloy	ton	11	384

INDUSTRY

Machine-Building, Electronics Industry Set Goals

91CE0270A Beijing ZHONGGUO NONGJIHUA BAO
[CHINESE RURAL MECHANIZATION NEWS]
in Chinese 5 Jan 91 p 3

[Article: "1991 Developmental Goals for Machine-Building and Electronics Industry"]

[Text] At the National Conference of Machine-Building and Electronics Industry Department Heads that concluded on 23 December 1990, Minister He Guangyuan [0149 0342 6678] proposed goals for 1991 development of the machine-building and electronics industries. The specifics are given below:

—Adjust the Structure: Foreign exchange earned from exports should reach US\$10 billion. The annual sales figures for the 370 newly supplied import substitution products should reach 14.4 billion yuan, which converts to US\$3 billion. We should provide 300 energy saving products and the 10,000 yuan output value of energy consumption should be reduced by 2 percent from the 1990 base. The material utilization rate should be increased by 1 percent and we should save 7 to 10 percent in gold and silver. We should maintain

the quality, volume, and on-time completion of large technical equipment required by such key national developmental areas as large-scale synthetic ammonia equipment. Key defense parts and equipment, such as the "31 projects" and the "East is Red III" satellite, must meet requirements. Such products as color televisions with which the market is effectively supplied must have new breakthroughs in quality, function, design, and after-sale service and must constantly improve their share of the domestic and foreign market. We must gradually improve enterprise organization and structure by enterprise mergers, reorganizations, and combinations.

—Enterprise Quality: Work on "technology gaps" must be actively promoted throughout the industries, concentrating on acquiring a clear understanding of the 300 key enterprises of each industry. The ministry's 51 key integrated enterprises must achieve obvious results in improving functional integration. All of the 300 provincial and municipality established improved on scene management experimental enterprises must initially attain six basic standards and the overall quality control of key mainstay enterprises must essentially attain eight standards. Employee quality must show new improvement.

- Development of Production: The planned 1991 gross value of output for machine-building and electronics industry system industries is set at 192.597 billion yuan, an increase of 1.5 percent over that estimated to be completed in 1990. We should strive to reduce the stockpile of manufactured finished products to approximately 12 percent of annual sales receipts and increase sales figures by 5 percent. In production safety we must put a stop to major damaging accidents and control the death rate at under 0.6 per 10,000.
- Economic Performance: In 1991 the machine-building and electronics industry system must realize a total of 16.3 billion yuan in profit taxes, a 1 percent increase over 1990. The profit tax fund rate for the machine-building industry should be 11 percent, 11.5 percent for the electronics industry, an improvement of 1 percent and 3.5 percent respectively over 1990. Liquid funds should circulate 20 days quicker than in 1990 for the machine-building industry, 30 days quicker for the electronics industry. Shop expenses and enterprise management expenses (deducting wages, interest, and depreciation expenditures) should be cut by 5 percent from 1990. The total worker production rate should reach 21,574 yuan, a 3 percent increase over 1990.
- Product Quality: The quality of essential work procedures on principal machine-building and electronics product production lines must be brought under control in 1991. The approval rate for national spot checks for the entire machine-building and electronics industry should improve to 85 percent and the approval rate for directed product checks of key mainstay enterprises should reach 100 percent. The rate of output value for high quality electronics industry products should reach 33 percent and the internal and external accidental loss rate for the entire industry should be reduced to below 10 percent.
- Technological Advances: Two thousand new products should be developed and 2,000 achievements in scientific research should be completed, with 138 combined mechanical and electronic products completed in 12 major categories. We must concentrate on expanding 10 technological projects in such areas as computer peripheral designs and come to a good understanding of the work of 600 enterprises using electronic technology to transform the work of traditional industries, concentrating on expanding 457 projects in 14 categories to "use electronic technology to transform products batch processed by traditional industries."

National Industry Expects To Exceed Projections

91CE0270B Beijing SHOU DU JINGJI XINXI BAO
in Chinese 3 Jan 91 p 1

[Article by Wang Dong (3769 2639), edited by Chen Nan (7115 2809): "Penetrating Economic Analysis: This Year's Industrial Development Expected to Exceed Projected Rates"]

[Text] The year 1991 is the first year of the Eighth Five-Year Plan. This year, the national industrial production growth rate was initially set at around 6 percent. Judging from the present situation, actual industrial production growth could exceed this level. This is based mainly on: (1) An expanded scale of fixed asset investment. This year, the planned national scale of fixed asset investment is more than double last year's and adjustments in the investment structure will be further improved. Demand for machinery, electronics, and building material products will be appropriately increased. At the same time, some investments also will be converted to direct and indirect consumer demands. (2) Last year agriculture had a bumper harvest and total grain production reached record levels. Also, cotton, oil-bearing crops, sugar crops, and other cash crops all increased production to different degrees. This probably will provide this year's light industrial production with ample industrial raw materials, and also provide light industry with a vast market. (3) Supplies of energy sources and principal raw and processed material products are rather slack. Last year's market slump and rather low rate of industrial development had an effect on the energy and raw and processed material industry. Prices for coal, steel, nonferrous metals, and the main industrial chemicals fell, supply and demand were relaxed, and stockpiles rose. (4) Appropriate increases in society's buying power. The continued slack in society's collective buying power will increase demand over last year.

The pattern for this year's industrial development will be: Light industry will grow faster than heavy industry, collective industry at a higher rate than state industry, and industry in coastal regions will grow faster than inland industry. But the differences will be somewhat reduced from last year. According to the projections of relevant departments, among principal light industry products, production and marketing of ordinary daily use products will be essentially normal and increases in stockpiles will be reasonable. It will appear that the supply is exceeding the demand in total volume of large durable consumer goods, but there will be a shortage of new, name products. Interior decorating items, cosmetics, gold jewelry, articles for women's and children's use, and small merchandise will grow steadily. Among textiles, it is predicted that this year pure cotton types will sell well. Polyester-cotton cloth, medium and long fiber, T-shirt and undershirt, and cotton shirt and pants production and marketing also will increase somewhat. The price of knitting wool and wool fabric will tend to be higher and production and marketing will be indifferent. The demand for clothing will develop in the direction of the new and original, the comfortable, the beautiful, and the name brand, and there still will be a disparity between supply and demand.

Heavy industry production will continue to maintain steady growth. Supply and demand in the energy industry in the second half of the year will tend to be tense. Supply and demand in the total volume of coal reserves will be essentially balanced. The problems will

be inadequate transport and rather great variety and price contradictions. This year's production of crude oil will increase slightly, but because of increases in the demands from the petrochemical, railroad, and transportation sectors, the gap will be rather large. Society's total demand for steel will increase 3.1 percent from last year. Of the ten nonferrous metals, supply and demand for copper and zinc will be rather tense and that for aluminum and lead relaxed. Among agricultural support products such as chemical fertilizers, pesticides, and agricultural film, high quality chemical fertilizers will tend to be tense and the small overstock of chemical fertilizers will be relieved. There will be an abundant stockpile of pesticides and, except for individual varieties, supply and demand will be balanced.

Based on an analysis of the situation described above, the central tasks on this year's industry and commerce front should be to continue to deepen enterprise reform, do a good job of improvement and rectification, and bring product quality and variety, and the economic performance of enterprises under complete control.

Shandong Assesses 1990 Industrial Growth

91CE0270C Shanghai JIEFANG RIBAO in Chinese
7 Jan 91 p 1

[Article by Gu Yuxiang (7357 3768 4382) and Lu Dai (7120 7818): "Last Year's Shandong Economic Growth 12.6 Percent: Revenue Increased 4.1 Percent, One of the Best Performing Provinces in the Nation: Rate of Increase First in East China, Second in Nation"]

[Text] At the turn of the year, news came from Shandong Province that the gross value of industrial and agricultural output for Shandong Province in 1990 was 191.3 billion yuan, a 12.6 percent increase over the previous year, the highest growth rate in the East China region and second only to Guangdong in the whole nation. Revenue increased 4.1 percent over the previous year, one of the best economic performances of any province in the nation.

Recently these reporters made a special trip to Jinan [3444 0589] to interview Shandong Governor Zhao Zhihao [6392 1807 3185] and Vice Governor Li Chunting [2621 2504 0080].

Shandong is one of the nation's ten coastal provinces and municipalities. In gross value of agricultural output it ranks first in the nation, second in gross value of industrial and agricultural output. Shandong Province's average national income grew by 9.3 percent during the Seventh Five-Year Plan, the gross national product increased by 9.6 percent, and the gross value of industrial and agricultural output increased by 16.2 percent. These indicators were all in the top three nationally, and it accomplished its first doubling three years early. How was the Shandong economy able to accomplish this steady development? Governor Zhao and Vice Governor Li told these reporters that it was mainly for the following few reasons:

—A Steady Pace, Great Vigor, and Strong Methods. In the last few years, the Shandong provincial leadership in taking charge of the economy persisted in following a steady path integrated with development, promoting an economically sound cycle. Especially last year, with a rather large number of difficulties in various aspects, they consistently placed stability above everything else and sought development in stability. They demanded that leading cadres at every level keep up good spirits, and resolutely overcome being content with things as they are and fearful and sad thoughts, and they encouraged cadres to work bravely. In 1990, in order to arouse the enthusiasm of broad masses of cadres and people, they reaffirmed and formulated a series of economic policies, thereby bringing about a whole year without a month of negative growth and assuring the complete victory of the annual plan.

—Consistently Paying Attention to Agriculture and Not Letting This Go At All. Shandong is an important national base for grain, cotton, oil-bearing crops, and fruit production. Although last year was Shandong's fourteenth drought year, because the whole province from top to bottom paid attention to agriculture and various measures were implemented, they still obtained gratifying results. Grain reached 34.8 million tons, the highest level in history and an increase of 2.3 million tons over the previous year. Peanut output was 2.042 million tons, an increase of 559,000 tons. Cotton and fruit both fulfilled the state plan. The development of other industries was spurred on by agricultural stability.

—Updating Industrial Technology and Strengthening the Infrastructure. In the Seventh Five-Year Plan, Shandong Province paid strict attention to updating technology and adjusting the product mix, especially last year they put forth a great deal of effort to get a good grip on this. Presently rather complete industrial system categories have been formed throughout the province, establishing the seven major industrial branches of energy, machine-building, electronics, the chemical industry, textiles, food products, construction materials, and metallurgy. In addition, raw coal, petroleum, and electricity and transportation facilities have experienced a great deal of development. As of now, exploited raw coal capability has reached 46.45 million tons, petroleum 33.5 million tons, and electric power installed capacity 7.41 million kilowatts. Newly laid railroads have reached 2,110 kilometers, port handling capacity has increased to 80 million tons, and 40,000 kilometers of public highways have been open to traffic, placing their rate of development in the front ranks of the nation.

—Great Progress Achieved in Opening to the Outside and Foreign Trade and Exports. With the approval of the State Council, since 1984, Shandong has opened seven regional cities such as Jinan, Qingdao [7230 1497], and Yantai [3533 0669], and 53 counties (districts) as open areas, opening up a total area of over 60,000 square kilometers with a total population in

excess of 32 million people, the most numerous and most populated open areas covering the largest area in the nation. Shandong now has a new multilevel structure for opening to the outside extending from the coast inland and from east to west and providing strong impetus to the economic development of the whole province. In recent years Shandong's foreign exports also have experienced sustained, steady development. In the Seventh Five-Year Plan, the average annual growth rate was 12.6 percent. In 1989 for the first time they broke US\$3 billion, and last year they reached US\$3.24 billion, breaking a record. It should be mentioned that in recent years, Shandong's utilization of foreign investments also has achieved gratifying results. Last year, newly approved foreign business investment enterprises and "three forms of import processing and compensation trade" projects came to over 500 and "three kinds of partially or wholly foreign-owned" enterprises alone attained a 1.6 billion yuan value of output, a 116 percent increase over the previous year.

—Making Full Use of the Revolutionary Spirit and Improved Ideological and Political Work to Help the People of the Whole Province Maintain Their Good Spirits. Shandong is an old revolutionary area. In the war alone it sacrificed over 220,000 martyrs. Moreover, the "Yimeng [3085 5536] Spirit" is a glorious tradition of the Shandong people. Shandong party and government organizations at every level, while striving to come to a good understanding of economic development, consistently persist in stressing the development of the spiritual civilization. Last year throughout the province for over six months they extensively launched "Learn from Daqing [1129 1987], Learn from Lei Feng [7191 6912], Learn from Jiao Yulu [3542 5940 4389] and Stress Tradition, Compete to Contribute, and Send Warmth" activities, greatly improving the ideological and political quality of the cadres and masses and strengthening the spirit of being masters of society. According to statistics, in the first half of last year alone, throughout the province industrial system employees proposed over 500,000 reasonable suggestions, realizing over 14,000 technological innovations tackling key problems and earning the economy 600 million yuan.

Henan Iron, Steel Industry Develops Rapidly

HK1102093391 Zhengzhou Henan Provincial Service
in Mandarin 2300 GMT 7 Feb 91

[Excerpts] During the Seventh Five-Year Plan period, our province's iron and steel industry witnessed a rapid development.

By 1990, the steel output, pig iron output, and rolled steel output of the local backbone iron and steel enterprises of our province ranked fourth, third, and sixth in the whole country with the result that our province has now become a big iron and steel producing province. [passage omitted]

During the seventh five-year plan period, our province's iron and steel industry continued to tap latent potentialities and carry out transformation. A batch of our province's old enterprises underwent transformation and expansion. [passage omitted]

During this period, our province's total iron and steel industrial output value registered an average annual growth of 10.33 percent. [passage omitted]

The amount of profits and taxes thus realized registered an average annual growth of 12.6 percent. In 1990, steel output reached 1.67 million tons while pig iron output reached 1.68 million tons and rolled steel output 1.32 million tons. The total output value of our iron and steel industry gained a 63 percent increase over the year 1985. Especially, Anyang Iron and Steel Plant took the lead in annually producing more than 1 million tons of steel among all the medium-sized local iron and steel enterprises in the whole country, thus joining the ranks of large iron and steel enterprises. [passage omitted]

Country Becomes Leading Producer of 11 Chemicals

OW1002164491 Beijing XINHUA in English
1447 GMT 10 Feb 91

[Text] Beijing, February 10 (XINHUA)—Official statistics show that China has become a leading producer of 11 chemical products in the world.

According to statistics released by the Ministry of Chemical Industry, in 1990 China became the biggest producer of calcium carbide in the world, with an annual output of 19.6 million tons.

China was the second biggest producer of synthetic ammonia, 21.22 million tons, and dyes, 123,000 tons.

Last year the country produced 90.72 million tons of chemical fertilizer (in standard terms), 11.5 million tons of sulphuric acid, 218,000 tons of farm chemicals and 3.8 million tons of soda ash, all ranking the third in the world.

China's other major chemical products in 1990 include 10.55 million tons of ferric sulfate ore, 15.43 million tons of phosphate ore, 20.81 million tons of phosphate fertilizer (in standard terms), 3.32 million tons of caustic soda, and 340,000 tons of glacial acetic acid.

The country's chemical industry achieved an output value of 75.78 billion yuan in 1990, an increase of 57 perlover the figure for 1985.

Beijing's Industrial Output Value Rises

OW1102112491 Beijing XINHUA in English
1007 GMT 11 Feb 91

["Capital News in Brief"—XINHUA Headline]

[Excerpt] Beijing, February 11 (XINHUA)—Today's Beijing news briefs:

Industrial Output Value Raises

Beijing City's industrial output value reached 5.65 billion yuan in January, a 20.4 percent increase over that of the same period last year.

During the same period, the sales volume of the city's industrial products also increased by 7.3 percent over the figure from the same period in 1990.

To meet the needs of the Beijing market during the coming spring festival, the most important festival for most of the Chinese people, the city's industrial departments will supply the market with 320 million yuan of industrial products, including color TV sets, refrigerators and other sundry goods.

Retail Sales of Social Commodities Up

In the first month of this year, the retail sales volume of social commodities of Beijing City amounted to 2.775 billion yuan, a 7.9 percent increase compared with that of the same period last year. [passage omitted]

Minister Reports Iron, Steel Industry Growth in 7th Plan

OW1202051891 Beijing XINHUA in English
0305 GMT 12 Feb 91

[Text] Beijing, February 12 (XINHUA)—China's iron and steel industry experienced vigorous growth and rapid advances during China's Seventh Five-Year Plan period (1986-90), said Qi Yuanjing, minister of the metallurgical industry.

The country produced 64 million tons of steel and 51.21 million tons of rolled steel last year, Qi said, adding that the industry laid a solid foundation for the country's development during the Eighth Five-Year Plan period (1991-95).

However, the amount of iron and steel produced in China still can not meet the needs of China's national economic development, and the types of products are lagging far behind the changes occurring in the industrial structures, Qi said.

Further attempts to readjust the industrial structure, raise product quality, and improve management will rely on the application of modern science and technology to give rise to the steady development of the iron and steel industry, Qi said.

Outlining the development program for the Eighth Five-Year Plan, Qi said that priority will be given to the production of 100 types of steel products which bear great importance to China's national economic growth.

The country will also quicken steps to exploit new mineral deposits, expand some big iron and steel works, and establish more enterprise groups, the minister said.

Furthermore, the industry will strive to raise the quality of its workers and equipment to the level achieved by the iron and steel works in developed countries by the year 2000.

Sewing Machine Industry Plans To Expand Exports

OW1702080091 Beijing XINHUA in English
0700 GMT 17 Feb 91

[Text] Beijing, February 17 (XINHUA)—China's sewing machine industry is striving to export more products abroad, according to the Beijing-based CHINA STATISTICS WEEKLY.

The industry's annual output dropped from a high of 12 million in the early 1980s—then the biggest output in the world—to 9.55 million in 1988, eight million in 1989, and 7.24 million last year.

Experts from the Ministry of Light Industry predict that domestic demand for sewing machines this year, or even in the next five years, will not rise dramatically and will probably fluctuate between seven and eight million a year.

This will force the country's 100 sewing machine makers to expand exports while exploring new avenues in the domestic market.

The weekly says that there is a demand for China-made sewing machines in Africa, the Middle East, East Europe and North America. Last year alone, two Shanghai sewing machine manufacturers sold 560,000 machines to over 60 countries and regions.

A survey by statistics departments shows that the domestic potential is still large in the vast countryside, where 80 percent of China's 1.16 billion people live.

According to the survey, 4.4 in every hundred families in the countryside of south China's Guangdong province would buy a sewing machine this year while the annual demand for sewing machines is also growing in the countryside of central China's Hubei province.

CONSTRUCTION

Capital Construction Projects Completed

HK1302124091 Beijing CEI Database in English
13 Feb 91

[Text] Beijing (CEI)—Following is a list showing capital construction projects completed by state-owned units in 1990, released by the China State Statistical Bureau:

	Unit	1990	1989
Total	100 million yuan	827.9	779.95
Investment			
Constructed	item	53422	54453
Completed	item	27439	27558
Area constructed	10,000 sm.	9016.59	10588.46
Housing	10,000 sm.	3288.44	3726.13
Area completed	10,000 sm.	4484.18	5225.14
Housing	10,000 sm.	1667.82	1842.18

COMMERCE

Commerce Minister Plans To Establish Conglomerates

OW0302220991 Beijing XINHUA Domestic Service
in Chinese 2135 GMT 2 Feb 91

[By reporter Jiang Jun (1203 6511)]

[Text] Beijing, February 2 (XINHUA)—This reporter learned recently that the Ministry of Commerce is planning to establish a group of commercial conglomerates to emphasize the overall superiority of state-run businesses.

A Ministry of Commerce research report proposes: Following the development of China's socialized mass production, the appearance of large markets at various levels, and the formation of all types of mass circulation, the nation's commercial enterprises at all levels should also become bigger. The organizational scale of China's commercial businesses, however, has become smaller in the past decade. From 1979 to 1989, the average staff of commercial organizations in society shrank from 5.7 to 2.8 persons, and that of wholesale industrial product enterprises under the Ministry of Commerce, from 46.5 to 29 persons. The average annual commodity purchasing value of each enterprise dropped from 12.65 million yuan to 8.034 million yuan.

According to analysis, small commercial enterprises played a positive role in quickening circulation, revitalizing the market, and providing conveniences for people. They also performed a certain role in enlivening state-run businesses. The small scale of all businesses in society, especially the state-run wholesale commercial enterprises, however, is harmful for the purposes of

organizing mass circulation and stabilizing the major markets. It also hinders commodity circulation efficiency and optimization of the distribution of commercial resources.

Commerce Minister Hu Ping recently proposed that, to become better organized, businesses should develop into conglomerates. He maintained that it is untimely and infeasible to reconstruct the overall superiority of businesses with old methods and systems, and that the development of conglomerates is a correct choice.

The "conglomerate" task force of the Ministry of Commerce believes that commercial conglomerates are more suitable for assuming responsibility for the supply of commodities under state macroeconomic regulation and control. They also are more suitable for serving as "the mainstream," as they are large, have bigger market shares, flexible operations, and a more powerful capability. The state can stabilize the market without harming its prosperity and vigor by merely managing a group of conglomerates.

It has been learned that the Ministry of Commerce has selected one of its subsidiary specialized companies to be a pilot commercial conglomerate.

FOREIGN TRADE, INVESTMENT

Suggestions for Reforming Exchange Retention System

91CE0196A Beijing GUOJI MAOYI WENTI
[INTERNATIONAL TRADE JOURNAL] in Chinese
No 11, 30 Nov 90 pp 52-53

[Article by Gu Limin (7357 4539 2404) and Ji Wenxiu (0679 2429 4423): "Tentative Ideas for Improving Foreign Exchange Retention System"]

[Text] Since China put into effect in 1979 the fixed-amount retention system for foreign exchange derived from export commodities, the system has played a fairly good promotional role in arousing the initiative of enterprises, expanding exports, and increasing foreign exchange revenue. However, following the reform of the economic system and the constant widening of the opening to the outside world, especially since the reform in 1988 of the foreign exchange retention system, this fixed-amount retention system has not been able to meet the needs of China's opening to the outside world, which is widening daily, and to a certain extent it has dampened the enthusiasm of enterprises for earning foreign exchange by means of exports. The main drawbacks in the fixed-amount retention system are:

1. The demarcation line between central foreign exchange and local foreign exchange is not clearly defined, and this is detrimental to the state's control of its foreign exchange reserves.

2. The process of examination and allocation is too slow, thereby adversely affecting the economic returns of enterprises.

3. This system has not yet been put under accounting headings, making it inconvenient for enterprise administration and management.

4. The procedures for using or redistributing foreign exchange in fixed amounts are overelaborate, making it difficult to display the beneficial results of foreign exchange funds.

5. The system imposes a large risk on the exchange rate, and its function in maintaining value is weak, and

6. In reporting to the higher level, calculating, distributing, and examining and allocating the fixed amount, there is a waste of labor and time, the degree of "transparency" is low, the enterprises have major complaints, and there are many contradictions.

To expand foreign trade better and to promote better the earning of foreign exchange by means of export, there should be a gradual transition from the fixed-amount retention system to the ready-exchange retention system. By putting into effect the ready-exchange retention system, not only can we avoid the abovementioned drawbacks, but also we can enhance the enterprises' consciousness about earning foreign exchange, encourage the making of appropriate arrangements for handling foreign exchange, and make full and vigorous use of foreign exchange funds.

To make the gradual transition from the fixed-amount retention system to the ready-exchange retention system, good work must be done in the following aspects:

1. Change the proportion of contracts put out by the administrative and management departments for the task of earning foreign exchange through export.

The task of earning foreign exchange through export should be undertaken by state foreign trade companies, local foreign trade companies, and production enterprises that have the right to engage in the export business (hereafter shortened to "export enterprises"); nonexport enterprises should no longer undertake the task of earning foreign exchange by means of export. The practice in which the municipality government contracts the task out to the provincial government, the county and district contract the task out to the city government, and the city and district governments see that the task is done at the lower levels must be changed. Export enterprise contracts make it convenient to fully display the superiorities of export enterprises in keeping informed about the international market situation, in getting to know their clients well, and in having widespread marketing channels and professional experience, all of which enable them to handle foreign trade well.

2. Reformulate the appropriate proportion for foreign exchange retention.

To handle correctly the interests of the state, the locality, and the enterprise, we must come up with a more appropriate proportion for foreign exchange retention, and must do away with policies that have a regional bias and replace them with policies that have an industrial bias. The proportion of foreign exchange retention for staple commodities that the state foreign trade companies have a monopoly on and that are related to the national economy and the people's livelihood, and for commodities in which there is strong competition in China and abroad, should be differentiated from the proportion of foreign exchange retention for small- and medium-sized commodities that are handled by local foreign trade companies.

3. Retained foreign exchange should be mainly concentrated in export enterprises, and should no longer be examined and then allocated to basic-level units that supply goods.

With regard to export commodities that an export enterprise buys by itself, the buying price should be negotiated by the enterprise and the goods-supply unit in line with the market situation in China and abroad and in line with the enterprise's ability to meet the price, and the buying should be of a monopoly nature. All of the foreign exchange retained after export should revert to the ownership of the export enterprise, and should no longer be distributed to the goods-supply unit.

Because the goods-supply unit will no longer retain foreign exchange, it is possible that the export enterprise will need to make a suitable rise in the buying price, and so it will need more buying funds. If the export enterprise is short of funds and it would be difficult for it to make the full payment, it can give the goods-supply unit a partial acceptance and then wait until it receives the foreign exchange from export to pay off the partial acceptance. The goods-supply unit can take the acceptance to a bank and immediately get funds through a discount note transaction.

The profit and loss on export commodities for which the export enterprise acts as the agent are to be taken by the commissioning unit, with the export enterprise collecting a certain proportion as commission. The retained foreign exchange then reverts to the ownership of the commissioning unit. However, the calculation of the amount of foreign exchange received from export is the contractual task of the export enterprise that earns the foreign exchange.

4. Set up a foreign exchange equal-standard fund and perfect the foreign exchange regulatory market.

After the ready-exchange retention system is put into effect, because the ready exchange will account for a large amount of Renminbi funds, the enterprises that do not have foreign exchange will certainly be anxious to take Renminbi converted from foreign exchange and put it into their business. This requires a corresponding foreign exchange market to regulate surpluses and deficiencies in foreign exchange. But at the present time

China's foreign exchange market is a primary, limited market that requires further improvement. We must set up a modernized market information network, raise the degree of "transparency" in foreign exchange transactions, and perfect internal operating mechanisms. We must break free from local protectionism in which activities are restricted to a designated sphere, and must widen the gathering together of foreign exchange funds. The central banks must strengthen their capability for effecting macroeconomic regulation and control over the foreign exchange market, and must set up a foreign exchange equal-standard fund. When the disparity between supply and demand is fairly prominent on the foreign exchange market, foreign exchange should be taken in and sent out in appropriate amounts in order to keep prices level, settle the market, settle finances, and promote the healthy development of the foreign exchange regulatory market.

5. Start a mortgage business in renminbi converted from enterprise-retained foreign exchange.

Starting a mortgage business in renminbi converted from enterprise-retained foreign exchange is an effective way to supplement the foreign exchange regulatory market. When on this market supply is greater than demand and prices are on the low side, foreign exchange retained by the enterprise can be channeled to the central banks and transacted as mortgages in order to obtain funds in renminbi. Or, when the enterprise's foreign exchange is temporarily not being used, it can be put in foreign exchange mortgages to obtain renminbi funds. In this way it will be convenient for an enterprise to bring funds together, and at the same time it will be beneficial for the disposition and control by central banks of foreign exchange funds for mortgages.

The specific practices for ready-exchange retention are:

1. Revenue and expenditure are controlled in separate accounts.

An export enterprise is permitted to open a ready-exchange revenue account and a ready-exchange expenditure account at the foreign exchange bank in its locality. The source of the foreign exchange in the revenue account is the foreign exchange earned by the export of commodities. However, without the approval of the foreign exchange control department, this money may not be taken out of the account at will. In line with the state's foreign exchange regulations, an enterprise can act on its own initiative in making use of and regulating the foreign exchange in the expenditure account.

2. The foreign exchange of the enterprise and of the center are kept separate.

The foreign exchange received by an enterprise from export is first put in the ready-exchange account, after which the export enterprise, according to the sum of money involved (or the amalgamated sums of money involved or according to a certain time period), fills out

a report for the relevant foreign exchange control department that lists in detail the foreign exchange derived from export as confirmed by a foreign exchange bank. In accordance with the proportion for ready-exchange retention stipulated by the state, the foreign exchange control department then calculates the shares of the foreign exchange that the center and the enterprise should get, and notifies the foreign exchange bank in writing. The bank then transfers the enterprise's retained foreign exchange from the revenue account to the expenditure account, and at the same time deals with the foreign exchange remaining in the account by selling it to the state.

Approval by the foreign exchange control department is required for the enterprise's payment of monies for transportation, insurance, commission, and repayment of indemnities, as well as for the repayment of foreign exchange loans. The payments are made out of the enterprise's ready-exchange revenue account, after which the remaining monies in the revenue account are calculated and retained for transactions in the settlement of exchange.

Foreign exchange earned by the export of commodities in which the enterprise acts as the agent is also put in the enterprise's ready-exchange revenue account and, in line with the abovementioned procedures, transacted as retained foreign exchange in the settlement of exchange. Retained foreign exchange that belongs to the commission unit is transferred by the export enterprise from the ready-exchange expenditure account to the ready-exchange retention account that the commission unit has opened in a foreign exchange bank.

3. Foreign exchange is shared by the central and local governments.

The foreign exchange in the export enterprise's ready-exchange expenditure account, that is, the enterprise's retained foreign exchange, belongs to the enterprise. The exchange settled by the enterprise with the state is the center's foreign exchange and goes into the state's foreign exchange reserves. The local government's foreign exchange is, in proportion, assigned by the center as quotas for use by the foreign exchange control departments in various places. The local government, with a matching amount of renminbi and through the foreign exchange control department, buys ready exchange from the foreign exchange bank. The central banks assign quarter-year quotas and the local government buys quarter-year ready exchange; the quotas become invalid after a specified date.

Provided the system of foreign exchange retention is appropriately formulated, and the interests of the center, the locality, and the enterprise are truly taken into consideration, and in addition the foreign exchange regulatory market is perfected and made sound, the ready-exchange retention system will have a greater

effect than the fixed-amount retention system, and will promote a further development of China's economic relations and foreign trade.

Customs To Improve Service

HK3101060891 Beijing CHINA DAILY in English
31 Jan 91 p 1

[By staff reporter Liang Chao]

[Text] The Chinese Customs authorities are taking steps to improve supervision over imports and exports in light of the growing volume and impending reform in foreign trade, a top Customs official has revealed.

The efforts will focus on upgrading the customs service and improving its existing regulations, said Dai Jie, director-general of the Customs General Administration.

This year, the start of China's Eighth Five-Year Plan (1991-95), the Customs authorities will face many new challenges as some major reform steps are expected, such as readjusting import structure, extending exporting and developing the coastal economy.

And China is scheduled to abolish all remnants of export subsidies, in line with the lowering of exchange rate, to allow its foreign trade companies to shoulder their own profits and losses.

Accordingly, the Customs duty system will have to be adjusted to cope with economic reforms aimed at combining a planned economy with market regulations, Dai said.

While evaluating China's preferential tariffs for foreign investors implemented over the past five years, Dai said that such policies will be continued to attract more foreign investment and improve the country's investment climate.

The Customs, Dai said, instead of simply being on guard as in the past, will put its major efforts into promoting the ongoing reform and policy of opening to the outside world.

Dai listed the following aspects as this year's major tasks:

- Drafting regulations on the supervision and management in Shanghai Pudong New Area and China's other regions with protective tariffs, where low and favourable Customs duties will be available;
- Working out practical solutions concerning the major issues of the CGA's supervision and administration over China's three types of Chinese-foreign joint ventures (Sino-foreign joint ventures, cooperative enterprises and solely foreign funded enterprises).

According to Dai, these issues included a reduced duty on total investment, the mortgage loans of duty-free products and the financial liability of bankrupt joint ventures.

—Offering management assistance to those enterprises with good records of abiding by Chinese laws and giving them the honorary title of "trusted enterprises."

—Enhancing the Customs' ability to handle and supervise non-commercial goods with the experience gained during last year's Asian Games.

—Upgrading anti-smuggling equipment and containing the smuggling which is still on the increase in Southeast China's four provinces and spreading to its eastern coastal areas.

Jilin's Achievements in Signing Foreign Contracts Viewed

SK2801083791 Changchun Jilin Provincial Service
in Mandarin 1030 GMT 27 Jan 91

[Summary] The institution of the contract system has brought great changes in our province's economic and technical cooperations with foreign countries. Over the past three years, the whole province signed 636 contracts on economic and technical cooperation with foreign countries, which was 82 percent of the total number of contracts signed during the previous eight years. From this, 237 contracts concerned the import of technology and equipment, 200 concerned the use of foreign capital and transactions with foreign countries, and 145 concerned overseas projects and export of labor services. These contracts involved \$17.2 million. The export of labor services involved 6,085 persons. Particularly during 1990, the scope of overseas cooperation continued to expand from several countries in the past to 10-odd countries. The cooperation sphere also expanded from building labor service to vegetable planting, garment processing, vehicle repair, lumbering, development of computer software and project design. During 1990, 3,370 workers were sent to foreign countries, three times that of 1987. Some joint and cooperative projects were carried out with foreign countries. This has alleviated our province's shortage of funds and promoted the equipment replacement and technical upgrading of enterprises, improved infrastructural facilities, expanded employment and increased \$19.79 million of foreign exchange through export.

Steel Products Exports Reach Record Level in 1990

OW0602013091 Beijing XINHUA Domestic Service
in Chinese 2120 GMT 5 Feb 91

[By Reporter Sun Jie (1327 2638)]

[Text] Beijing, 5 February (XINHUA)—China's export of steel products reached a record level of 2.5 million tons last year.

The output of China's steel industry last year was 66 million tons. The varieties and constitution of steel products also improved considerably, paving the way for the increase in exports. During the Seventh Five-Year

Plan, China's self-sufficiency rate for certain steel products in short supply gradually improved. The rate of wire rods rose from 66 percent to basic self-sufficiency; medium and heavy plates from 70 to 90 percent; seamless steel pipes from 53 to 70 percent; and thin plates from 56 to 74 percent. Meanwhile, China's steel industry also stepped up economic cooperation and technical exchanges with counterparts abroad, and introduced a batch of important and crucial facilities to open up more avenues for export. During the Seventh Five-Year Plan, export by China's metallurgical industry earned foreign exchange worth 5.4 billion dollars.

According to sources, in order to guarantee the quality of exported steel products, China will implement a system of endorsing the quality of metallurgical products for export this year. Only enterprises issued with certificates of approval by the Ministry of Metallurgical Industry will qualify to export their products.

Beijing Plans To 'Catch Up' With Shanghai

HK0602051091 Beijing CHINA DAILY in English
6 Feb 91 p 2

[By staff reporter Qu Yong]

[Text] Top Beijing officials voiced their determination yesterday to lure more foreign investment this year and boost the city's exports.

Among them, Mayor Chen Xitong revealed Beijing's ambition to "catch up with Shanghai" in its economic development at the annual meeting on Beijing's foreign economic relations and trade.

Chen put forward two key factors in the realization of this ambition—"profits" to attract foreign investors and "priority support" for exporters to avoid a possible foreign exchange earnings slump amid international and domestic pressures.

"We hope to establish at least 300 new enterprises involving a total foreign investment of \$150 million," said Wu Yi, vice-mayor in charge of foreign economic relations and trade.

While emphasizing the need to attract overseas capital for medium and small projects, Wu urged the establishment of at least one joint venture with an investment of over \$100 million in each of the Chinese capital's polar industries, such as electronics, in the next two years.

"We need foreign investment to help renovate Beijing's out-dated industrial equipment and technology," she said, adding that the \$100 million the city currently spends each year to import foreign technology was inadequate.

Beijing approved 241 new foreign-funded projects last year involving a total contracted overseas investment of \$263 million, up 39 per cent from 1989.

At the meeting Wu also announced the 1991 export target of no less than \$1.2 billion despite such unfavourable factors as the Gulf war and the ominous Western economic recession.

Chinese foreign trade companies are also under pressure from the shift to a cash trade with the Soviet Union and the East European countries after decades of government barter trade. This year also marks the beginning of a new reform plan under which the companies are responsible for their own losses.

Wu called on manufacturers of export items to help shoulder the pressure by cutting production costs and sharing the burden of rising prices on the domestic market.

Beijing's exports last year reached a record \$1.32 billion, 13.8 per cent more than in 1989.

Zhang Ming, director of Beijing's Foreign Economic Relations and Trade Committee, announced other plans and targets at the meeting.

He said Beijing would try to develop entrepot trade to the Soviet Union and East European countries while opening offices in these countries to establish sales networks capable of developing cash and barter trade.

Zhang said Beijing would also try to get more foreign government loans to finance the importing of \$100 million worth of overseas technology this year.

He urged local firms to launch joint ventures with labour service companies from Japan and South Korea to expand Beijing's overseas engineering projects.

ECONOMIC ZONES

Liaoning's Dalian Development Zone Progresses

OW0202141891 Beijing XINHUA in English
1353 GMT 2 Feb 91

[Text] Dalian, 3 February (XINHUA)—The Dalian Economic and Technological Development Zone (DETDZ) in northeast China's Liaoning Province achieved a fairly rate of progress last year both in industrial production and foreign investment.

Construction started on the DETDZ in October 1984. It covers an area of nine sq km, and to date it has set up 189 foreign-funded enterprises with an accumulated investment of 900 million U.S. dollars. The investment comes from more than 20 countries and regions, including Japan, the United States, Canada, Germany, Indonesia, Malaysia, Thailand, Singapore, Hong Kong and Macao.

The achievements of the zone in 1990 cover the following aspects:

—Total industrial output value reached 950 million yuan, 60 million yuan more than the accumulated total for the previous five years, of which 7-5 per cent

came from foreign-funded enterprises. There are 16 foreign-funded enterprises each of which enjoy an annual output value of over 10 million yuan.

—For the first time the boce's export income surpassed 100 million U.S. dollars and reached 109 million U.S. dollars, exceeding the total for the previous five years. Foreign-funded enterprises made 97 million U.S. dollars from exports last year, an increase of 104.7 percent compared with the previous year.

—The zone ratified 70 foreign-funded enterprises last year, 32 percent more than in the previous year, involving an investment of 400 million U.S. dollars, 1.3 times the figure for 1989. Now the zone has 32 solely foreign-funded enterprises.

LABOR

Government Testing Social Insurance System Reforms

OW0202110091 Beijing XINHUA in English
1008 GMT 2 Feb 91

[Text] Beijing, February 2 (XINHUA)—The Chinese Government has listed several pilot sites for testing the reform of the country's social-insurance system.

In an authoritative article in today's PEOPLE'S DAILY Gao Shangquan, vice-minister of the State Commission for Restructuring the Economy, revealed that two south China special economic zones, Hainan and Shenzhen, have been listed as pilot sites for testing comprehensive reform of the country's social-insurance system. In addition, Dandong City and Dalian city in Liaoning Province, northeast China, have been chosen as pilot sites to test reform of the medical insurance and rural pension insurance systems, respectively.

Gao stressed that reform of the country's current social-insurance system is necessary for the realization of social stability and economic development.

The article, entitled "To Establish a Social-Insurance System Is an Urgent Task," notes that China is facing a challenge in light of an increasing proportion of elderly persons in the population. At present, pensions are paid using immediate revenues in the country. However, by the year 2000 the country's total pension payments will surpass 100 billion yuan (20 billion U.S. dollars). This will be in addition to expenditures to unemployed workers and the disabled, thus becoming an unbearable burden for the state if the current system of having no special fund for paying pensions is continued.

Gao suggests that the emphasis of any reform of the current social-insurance system should be placed on pension and unemployment insurance. Funds should be raised from both enterprise and individual savings and set aside to fund the system.

Gao also stressed that it is necessary to study and to as quickly as possible determine the percentages to be deducted for social insurance funds, and to formulate policies for guaranteeing and increasing the value of the accumulated sum.

At the same time, according to Gao, it is necessary to reform the management system of social insurance, strengthen the leadership in this field, and establish related administrative institutes.

Article Views Functions of Wages

HK1402095091 Beijing JINGJI RIBAO in Chinese
5 Jan 91 p 3

[Article by Liu Zhihua (0491 1807 5478) and Ma Xiaoli (7456 1420 7787) of the Wage Research Institute of the Ministry of Labor: "How To Give Effective Play to the Role of Wages"]

[Text] The functions of wages usually refer to their functions as a guarantee, stimulant, and lever. In such a socialist country as ours, wages must be based on the principle of distribution according to work. An important subject urgently waiting to be solved in the current wage reform is how to give play to the three functions of wages without deviating from the principle of distribution according to work.

Needless to say, the enterprise single grade wage system currently in force in our country can no longer give effective play to the three functions and must be reformed. Analyzed in terms of theory, there are many reasons why the existing wage system cannot give effective play to its three functions. As far as the wage work itself is concerned, an important reason is that it cannot satisfactorily solve the question of respecting the law of value. As mentioned above, ours is a socialist state and the wages at the present stage naturally should not deviate from the path of distribution according to work, still less should we mechanically copy Western countries' method of total market regulation. However, at the present stage, ours is also a planned commodity economy and we should not overlook the role of the law of value. In this respect, we can take as reference some experiences of Western countries in developing commodity economy because these experiences, which reflect the basic laws governing the commodity economy, are not a patent of capitalist countries. For this reason, in this article we would like to take some experiences of Western countries as reference and discuss, under the guidance of Marxist wage theory, the question of how, given the socialist commodity economy, to more satisfactorily respect the law of value and give effective play to the three functions of wages.

Establish a Normal Wage Growth Procedure, Give Effective Play to the Function of Wages as a Guarantee

The function of wages as a guarantee refers to workers and staff members enjoying a minimum guarantee in

livelihood after employment. According to Marx's explanation, the lowest wage limit is determined by the value of the means of subsistence absolutely needed by laborers for their livelihood and reproduction. The socialist commodity economy calls for the rational distribution of production factors, namely, the combination of the means of production and labor must maintain a rational quantitative ratio. Regulated by the law of value, production factors are constantly rearranged. Sometimes, some laborers are unable to combine with the means of production for the time being, hence the phenomenon of waiting for employment. Although people waiting for employment cannot work for the time being, namely, they cannot, for the time being, provide the society with personal labor amount, they must also get some income (i.e., unemployment insurance) to support their families. Otherwise, it will be impossible for labor and social reproduction to go on normally.

The function of wages as a guarantee also demands that wages must satisfy the employees' basic needs in life. That is to say, the wage level should be regularly adjusted according to the growth of social labor productivity, the rise in local price index, and the changes in living standards so that total social supply and demand constantly tend to coincide. This is the general plans of all governments to achieve economic development objectives. An important prerequisite for or aspect of the coincidence of supply and demand is appropriate wage growth.

In recent years, according to the existing wage standards, the wage levels of workers and staff members in our country are much lower than the growth of labor productivity. In the first four years (1986-1989) of the Seventh Five-Year Plan, the social labor productivity grew at an average of 5.5 percent annually and the average actual wages of workers and staff members grew by only 0.8 percent annually, with the ratio between both standing at 1:0.15; meanwhile, the total price index of living costs of workers and staff members rose by an average of 13.1 percent annually and the average currency wages of workers and staff members grew by 13.9 percent annually. That is to say, the wage growth of workers and staff members in recent years has just offset price increase, which is obviously not quite rational. Due to the slow increase in wages, the grass-roots units could not but "give full play to their own remarkable abilities," thus inducing excessive growth in extra-wage income. The 1990 actual income of workers and staff members was not low and we can say that it was faster than the increase of labor productivity and economic results. Viewed from a certain angle, a mechanism which spontaneously readjusts supply and demand has taken shape under a relaxed environment of delegation of decision-making power. Of course, this spontaneous mechanism lacks self-consciousness. That is to say, it lacks what is usually called self-restraining mechanism, which makes the extra-wage income swell and sharpens the contradiction between consumption demand and supply.

To give full play to function of wages as a guarantee, it is necessary to establish as quickly as possible a normal wage growth procedure, which includes: The state should give an annual forecast of the wage growth margin and formulate and make known to lower levels the annual criteria for controlling wage increases; all localities and enterprises should consult the wage increase margin, determine their own margins, and implement them strictly. One year after enterprises across the country have their wage increases, government organs, institutions, and other units have their wage increases but they are not allowed to exceed the average enterprise wage increase margin. In so doing, not only can we ensure the scientific character, inviolability, and authority of the wage plan, but we can also solve the disorderly situation of wage adjustments in government organs, institutions, and other units.

Reform the Enterprise Single Grade Wage System, Give Effective Play to the Function of Wages as a Stimulant

The function of wages as a stimulant finds chief expression in its ability to stimulate people's spirit of forging ahead. Wages are in fact an outcome of the society's assessment of the laborers.

Although the enterprise single grade wage system currently in force in our country has played a positive role in history and had some rational factors, it cannot reflect the labor characteristics of different trades and professions, nor can it comprehensively embody the labor quantity and quality of workers and staff members. At present, there is still a big difference in production factors among various enterprises, but the existing enterprise single grade wage system cannot reflect the difference and frequently playing a negative role. For example, workers and staff members engaging in hard labor in enterprises with poor conditions may get less than what their labor is worth and thus dampen their enthusiasm for labor; on the other hand, workers and staff members working in enterprises with good conditions may often get more than what their labor is worth. Therefore, in line with different labor characteristics, we should gradually implement a set of enterprise basic wage systems which can more comprehensively reflect the labor quantity and quality of workers and enterprises. Judging by the practical experience of some enterprises and the current practice in various countries, it will be better to adopt the job-skill wage system as a principal form, take labor skill, work responsibility, labor intensity, and labor environment as the four basic factors for labor assessment, and measure the wage coefficients of different jobs and professional or technical levels, so that workers and staff members working in posts with a heavier responsibility, higher labor intensity, and poorer environment and possessing a higher professional or technical level can get higher wages.

In recent years, our country has implemented a method of linking enterprise wages with economic performance. This is correct in terms of general orientation and should

be upheld. In practical operations, however, the efficiency of some enterprises is achieved by dint of preferential policies and social special conditions (including some noneconomical factors). The wages linked to such an efficiency contain some irrational elements. They cannot objectively reflect the fact that what one gets is what one pays in labor and, therefore, the function of wages as a stimulant cannot be brought into play properly. What we should chiefly do is to improve the methods, perfect the link indexes and systems, strengthen lateral comparison and, with the average trade efficiency index as the basis and in light of the different efficiency in various enterprises, use different coefficients to determine and readjust the floating ratio of linkage.

The fact that the function of wages as a stimulant has not been satisfactorily brought into play in our country is also due to the irrational wage pattern. According to 1989 statistics, the standard wages of workers and staff workers in state-owned enterprises account for only 53.7 percent of total payroll. They even dropped to less than 50 percent in many enterprises. This, plus the various "hidden subsidies" by the state and units, reduced the wages to a little over 40 percent of the comprehensive actual income of workers and staff members. This irrational structure has made it difficult for the wages to reflect what the workers get from labor and must be readjusted. There is a view holding that the price subsidies which have been listed in total payroll, as well as some rational and legitimate welfare and remuneration, such as subsidies for washing, haircut, traffic, books, and newspapers, may be turned into the basic wages of workers and staff members and that the present hidden subsidies may even gradually be turned into wages. We think we can give this view a try.

Straighten Out the Wage Management Structure, Give Effective Play to the Function of Wages as a Lever

The function of wages as a lever is used to regulate the flow of labor and, through the rational flow of labor, rationally distribute production factors and adjust the production structure. This function comes from the special feature that wages are determined by labor supply and demand.

In our country, wages are not determined by labor supply and demand. In spite of this, in the course of economic operations, many aspects of wages are actually subject to the restriction of labor supply and demand. For example, no matter how wilfully workers and staff members may demand wage increases, there is always an objective limit; contrarily, no matter how the wages are freed, there is also an objective limit. If this is exceeded, it will be detrimental to economic growth. This special feature, namely, that labor supply and demand determine wages, is a necessary outcome of the commodity economic society.

Likewise, whoever may determine the wages, they must be acceptable to both supply and demand. It is precisely

because we have overlooked this point that we have not brought into full play the function of wages as a lever, thus making it impossible to rationally distribute production factors in some trades. For example, because the wage difference between technical and nontechnical workers is not rationally widened, the phenomenon of workers being unwilling to learn skills is widespread, and technical workers fall short of demand in many enterprises, resulting in labor structural shortage; due to high labor intensity and poor working conditions, it is very difficult to recruit or retain workers in crucial work types and posts in some industries (coal, textile, railway, and metallurgy). Very obviously, because the wages of technical posts and strenuous posts are too low, especially because the wages of strenuous posts cannot compensate the disutility of marginal workers [bian ji gong ren de fu xiao yong 6708 7139 1562 0086 4104 6298 2400 3938], they are not acceptable to labor suppliers. We should face reality and straighten out the wage management structure. Our basic orientation is that it is necessary to have both state macro control and decision-making power of enterprises and even workers and staff members, discard the current practice of "rigid uniformity" irrespective of different enterprises, gradually establish a wage management structure characterized by "state macroeconomic regulation and control, management at different levels and categories, and independent distribution by enterprises."

Labor Minister Expects Unemployment Rate To Rise

OW1802073491 Beijing XINHUA in English
0718 GMT 18 Feb 91

[Text] Beijing, February 18 (XINHUA)—China is fighting to keep its unemployment rate below 3.5 percent in light of an expected peak jobless period during the next five years, said Ruan Chongwu, minister of labor.

Ruan told XINHUA today that although this figure is higher than the current unemployment rate of 2.6 percent, it will still be the lowest in the world.

Ruan admitted that it will not be easy to reach this goal in such a populous country as China. He added that the next five years also represent the time when all the baby boomers of the 70's will reach working age. They will have to compete with the 3.83 million jobless people left from the previous years, Ruan said.

There will be a total of 11 million people demanding jobs each year, while the country can only provide for about 7 million. Ruan conceded that there may be as many as 11 million jobless workers at the peak of the unemployment period.

The number of the unemployed in both urban and rural areas might rise above the current level during the coming years, but the Labor Ministry is determined to keep the figure as low as possible, said the minister.

Ruan noted that the implementation of China's austerity program during the past two years might continue to limit people's chances of getting a job. And enterprises are more interested in improving their economic efficiency than enrolling new staff.

The country will deal with the problem through various channels, including state employment, collective employment and self employment, he said. The minister hopes to encourage people to find jobs through the latter two ways rather than depending on government's arrangements.

At the same time, the country will pay more attention to developing the service industry and other labor intensive trades so that they will be able to hire more people, Ruan said.

Moreover, the government will provide labor service enterprises with more preferential loan and tax policies in order to encourage people to create jobs for themselves.

Ruan stated that there are currently about 8 million people working in 240,000 labor service companies throughout the country. These labor service companies provide a unique means of offering jobs, which has aroused the interest of international labor organizations, according to Ruan.

He stressed that the cooperation of the whole of society will be required to make the best use of the country's vast labor resources, adding that the efforts of the labor departments alone are far from enough.

The minister is optimistic about reaching the goal. He believes that the country's improving economic situation will provide better chances for the jobless. In addition, the country has a good record in dealing with unemployment peaks, he noted.

Statistics from the ministry report that China provided 85 million people in urban areas with jobs while arranging work for 90 million surplus rural laborers between 1979 and 1989.

Even during the past two years' austerity program, the country's unemployment rate has been kept below 2.6 percent. In big cities like Beijing, Shanghai and Tianjin, the figure never surpassed one percent, Ruan said.

TRANSPORTATION

Thirteen Railway Bridges Span Yellow River

OW0902084291 Beijing XINHUA in English
0830 GMT 9 Feb 91

[Text] Lanzhou, February 9 (XINHUA)—A total of 13 railway bridges have been built on the Yellow River, the second-biggest river in China since the founding of the People's Republic of China in 1949.

The 10,282-m Changyuan-Dongming Bridge is the longest in China. It is located on the the border between Shandong and Henan Provinces. The bridge is 3,500 m longer than the famous Yangtze River Bridge at Nanjing, Jiangsu Province.

Two railway bridges were designed and built by foreign firms before 1949, but they have fallen into disuse.

At present, two more railway bridges are under construction—on the Shenmu-Suoxian and Baoji-Zhongwei railway lines, respectively. One of them is 1,597 m long and the other is 1,315 m long.

Shipbuilding Industry Posts 7.9 Percent Annual Rise

OW1202121391 Beijing XINHUA in English
1023 GMT 12 Feb 91

[Text] Beijing, February 12 (XINHUA)—China's shipbuilding industry maintained a 7.9 percent annual average rate of development during the past ten years, said Zhang Shou, general manager of the China State Shipbuilding Corporation.

The industry's production has increased from 310,000 tons in 1979 to 600,000 tons in 1989, with a record high 850,000 tons produced in 1986, Zhang said in an article carried in today's GUANGMING DAILY.

China can now produce most of the equipment, facilities and parts for various kinds of ships, according to Zhang. Moreover, the country has exported many of its two million dwt ships to several of the dozens of countries and regions with which it has established ship trade ties, he added.

Speaking of the corporation's production goals for the 1990s, the general manager stated that it would strive to produce energy transport, ocean-going, passenger, engineering and offshore oil prospecting vessels that meet the needs of the country's developing transport and energy industries.

Zhang holds that the shipbuilding industry has a very large potential on the home market.

At the same time, he said, the corporation will sustain its efforts to expand exports and strengthen and promote relations and cooperation with world navigation and shipbuilding circles.

In the next three years, China's shipbuilding industry will concentrate its energy on improving quality, raising production efficiency, and readjusting its product mix, Zhang mentioned.

Hebei To Improve Transportation, Telecommunications

OW1602131691 Beijing XINHUA in English
1249 GMT 16 Feb 91

[Text] Shijiazhuang, February 16 (XINHUA)—North China's Hebei province will concentrate on paving the way for economic development by improving transportation and telecommunications facilities during the coming five years.

A provincial official said that the province will cooperate with the state in building key railways, while at the same time focusing on improving highway conditions.

Hebei will accelerate construction efforts at three major ports, Huanghua, Tangshan and Qinghuadao, and three airports in Shijiazhuang, Shanhaiguan and Tangshan.

In addition, the province will install advanced program controlled telephone systems with 600,000 lines, as well as optical fiber and micro-wave telecommunications facilities across the province.

The official said that by the end of 1995 the province will have completed a transportation and telecommunications network.

PUBLICATIONS

New Dictionary To Feature CPC History

OW1802101591 Beijing XINHUA in English
0849 GMT 18 Feb 91

[Text] Beijing, February 18 (XINHUA)—A dictionary on the history of the Communist Party of China (CPC) will be published before its 70th anniversary.

The dictionary, which is comprised of more than six million words, is being published to mark the 70th anniversary of the founding of the CPC, according to the party school of the CPC.

Other books to be published in celebration of the party's anniversary include selections of documents from the CPC Central Committee; research information on party construction; modern research on socialism; the CPC and the socialist construction with Chinese characteristics; and books about revolutionary leaders, such as the late CPC Chairmen Mao Zedong and Zhou Enlai.

AGRICULTURE

Anhui Rural Technical Contracts

91CE0236A Hefei ANHUI RIBAO in Chinese
20 Dec 90 p 2

[Article by ANHUI RIBAO reporter Wang Mingyong (3769 2494 0516): "Success Reported in Rural Technical Contracts Provincewide: 12,000 Contractors Have Gone

Down to the Countryside, 13 Million Mu of Land Is Under Contract, and the Value of Output Has Risen 121 Million Yuan"]

[Text] Building upon the good social and economic results achieved in 1989, reports indicate we are achieving additional success with rural technical contracting activities in 1990. Provincewide, on the front lines of our effort to intensify agricultural production 12,000 have people have signed on as technical contractors, up more than 2,500 from 1989; 13.67 million mu of various kinds of cropland have been contracted, up 7.3 million mu over 1989; and the number of contracting farm households has more than doubled over the 934,000 enrolled in 1989. Altogether, grain production has grown by 101 million kg, ginned cotton yield has risen 5.065 million kg, and rapeseed output is up 15.7 75 million kg, resulting in a 121 million yuan increase in the value of output.

In 1990 local areas all across Anhui have made it a top priority to rely on scientific and technical advances to vitalize agriculture, and rural technical contracting activities have made new strides and grown in depth and breadth. Contract forms have grown more flexible and diverse: we have developed from the uniform system of production contracting of the past to the series of pre-production, production, and post-production contracts that exists today. There are now interdisciplinary, multi-level, and interdepartmental group contracts, as well as task-oriented contracts that combine experimentation, demonstration, and extension efforts. The weakness of the intradisciplinary, intradepartmental technical contracting of the past, which made it difficult to draw upon the advantages of pooled talents, has been eliminated. The scope of contracting is continuing to grow, having expanded from just a few crops—grain, cotton, and oil—to encompass, in addition, tea, silkworms, fiber crops, melons, fruit, and vegetables as well. Improvements in yields and value of output are quite obvious. In 1990 Guoyang County coordinated to organize four contracting groups headed by county party committee members and important government functionaries. Officials from the departments concerned participate in this effort and see to it that technology is geared to field applications and that goods and materials are distributed to rural households. On the 95,000 mu of contracted cropland our grain yield alone has grown 3,942 tons, amounting to an average increase of 11.7 percent per mu. The Wuwei County Agricultural Technology Extension Center contracts 58,000 mu of cotton, paddy, and hybrid oil cropland on which it has raised output value 4.5 million yuan—an average of 70-plus yuan per mu—garnering commendations from provincial and prefectural authorities.

In order to ensure the continued smooth operation of technical contracting activities we developed in 1990, each locale must augment leadership in this area, continue to perfect the contracting mechanism, institute goal-oriented management, and try every means possible to solve the funding and material support problems that plague contracting activities.

Henan's Hybrid Seed Output Discussed**Hybrid Seed Output Increased***91CE0236B Zhengzhou HENAN RIBAO in Chinese
3 Dec 90 p 1*

[Article by HENAN RIBAO correspondent Xue Qingong (5641 0530 0501) and reporter Zhao Kezhong (6392 0344 0022): "Henan Makes Great Breakthrough in 'Two Hybrids' Seed Production: Production Capacity for Hybrid Corn and Paddy Seed Has Reached 70 Million Kg and 3.5 Million Kg, Respectively, in Controlled Planting, and Our Longtime Passive Reliance on Imports of 'Two Hybrids' Seed Has Been Fundamentally Changed"]

[Text] As a result of painstaking efforts made on the agricultural front provincewide by scientific and technical personnel, the broad peasant masses, and seed departments at all levels, since 1988 Henan's long time reliance on imported supplies of hybrid corn and paddy seed has seen a fundamental change.

It is our understanding that in 1990 controlled planting of hybrid corn was restored to 440,000 mu, up from something over 200,000 mu, and the seed yield reached 70 million kg, which essentially supplies all Henan needs to plant 30 million mu of corn. Hybrid paddy production smashed various textbook conclusions about poor prospects for controlled paddy rice cultivation in the Huai He region. The controlled planting area has grown from zero at the beginning to 32,000 mu in 1990, and that area produces a yield of 3.58 million kg of paddy rice seed. Hybrid paddy farming has expanded to more than 3 million mu of land, making Henan basically self-sufficient in rice.

For a long time Henan suffered a serious shortage of all kinds of hybrid seed. For hybrid rice seed we relied entirely upon transfers from outside. As of 1985 we could only meet 30 percent of our requirement for hybrid seed corn. Not only did we have to spend nearly 100 million yuan per year outside the province, we also had no guarantees on quality or quantity.

To change this situation, in 1988 Henan began to make seed production one of four major basic agricultural projects. All levels of government, from the province on down to the prefectures, cities, and counties, increased funding and material inputs for seed production. They also formulated and implemented certain measures to safeguard the development of seed-producing enterprises, thus stimulating farming enthusiasm among peasants and seed departments. At the same time Henan's Agriculture and Animal Husbandry Department and its General Seed Management Station took a series of effective steps. In the production sector they established a number of commercial, specialized, relatively isolated controlled planting bases and set up a seed supply schedule, eliminating discontent among the controlled

planting units due to fear of overstocks. In the management sector they pursued a dual-part contract responsibility system which provided for a strict examination and approval process in which responsibilities were divided by grade, management was divided into administrative levels, and centralized inspection was in effect. In the technical sector they achieved significant breakthroughs in controlled paddy cultivation after three years of efforts, surmounting technical problems such as the unfavorable bloom season. They took the first steps in identifying a set of new techniques for high-yield controlled planting, raising controlled planting output as high or nearly as high as those of high-yield areas across China and laying a foundation for large-scale expansion of hybrid paddy. For hybrid corn, they resolved the longstanding problem of low yields from controlled plantings of hybrid corn in the plains region. For the first time the average per-mu yield for hybrid corn in controlled plantings has surpassed 150 kg, and classic high yields of over 300 kg per mu have occurred.

In order to meet Henan's agricultural needs for the two types of hybrid seed during the Eighth Five-Year Plan, the Henan seed management department recently established highly specialized, highly commercialized seed production bases and a substantially improved seed supply system. We have achieved our goals of self-sufficiency, surplus, and hybrid seed exports to other provinces. Concerning the achievement of these goals, at the All-Province Conference on "the Two Types of Hybrid Seed" that ended on 26 November Henan Provincial party committee member and Vice Governor Song Zhaoshu [1345 3564 5126] pointed out that if we want to concentrate on agriculture we must first focus on seed production. At every level of government comrades responsible for agricultural affairs must pay close, personal attention to this matter. We must be willing to invest, and for this purpose the province has already set aside some funds. The prefectures, counties, and cities must also allocate money for this. Departments involved with planning, finance, banking, supply and marketing, commercial and industrial taxation, and grain must continue to support seed production and work together to contribute to the development of seed production facilities in Henan.

Editorial Encouraging Hybrid Seed Production*91CE0236C Zhengzhou HENAN RIBAO in Chinese
3 Dec 90 p 1*

[Editorial by HENAN RIBAO editorial staff: "Exploit the Yield-Boosting Advantages of Improved Hybrid Varieties"]

[Text] In recent years, as the need for high-yield and high-return development in agriculture has grown, the role of improved varieties, particularly improved hybrid varieties, has increasingly drawn attention and gradually become known and accepted among the peasantry.

Efforts to popularize and spread improved hybrid varieties will be of irreplaceable importance in pushing agriculture, especially grain production, to one new height after another.

However, we must also understand that, overall, seed production work has not kept pace with the actual need for high-yield, high-return agricultural development, and although the breeding and popularization of the "two kinds of hybrid seed" has produced breakthrough progress, its development has been very uneven. There are still more than 40 counties in Henan that are less than 50 percent self-sufficient in corn production. The existing seed supply system is rather feeble: there are still more than 400 townships across Henan that have yet to establish any seed supply station; some counties also lack essential storage, inspection, measurement, and processing facilities; and protective seed production policies have still not been completely implemented. These factors have affected and limited the development and progress of hybrid seed controlled planting programs.

If we are to take full advantage of the yield-boosting benefits of improved hybrid seed, in the short term every level of government and all departments concerned with seed production must first respond to the need for sustained, stable agricultural growth by working steadily to consolidate and link special controlled planting bases and continuing to popularize and spread the techniques of high-quality, high-yield controlled planting. Second, they must invest their efforts in improving the seed supply network until eventually each county has a seed supply company, each section of a county has a central seed supply station, each township has a seed supply point, and each village has a seed supply officer. Third, they must make use of all sorts of development project funds, increase inputs, constantly improve the conditions and methods of production on special bases, and conscientiously implement protective policies. In addition, they need to do a good job of market forecasting and enhance macroeconomic regulation and control and market management in order to strengthen the internal vitality and and contingency preparedness of seed production and business units.

Hybrid seed production and dissemination is a major responsibility of agriculture and seed management departments. The Henan government is very concerned about hybrid seed production and has several times convened meetings to study and resolve problems associated with it. Every locale must make hybrid seed production and dissemination a focus of scientific and technical support for agriculture, see it through to success, and ensure that it plays a greater role in increasing agricultural yields.

Hunan Rice Exports Decline

91P30099B Changsha HUNAN NONGCUN BAO in Chinese 18 Jan 91 p 1

[Summary] Over the past few years, Hunan Province exported more than 100,000 tons of rice and earned over

\$10 million in foreign exchange. However, in 1990 rice exports dropped to a little over 20,000 tons and earned less than \$3 million in foreign exchange.

Autumn, Winter Crop Area

91P30099D Beijing JINGJI RIBAO in Chinese 21 Jan 91 p 3

[Summary] At the end of December, the autumn and winter crop area totaled 650 million mu, a 1.8 percent increase over the same period in 1989.

Shanxi Farmer Income

91P30099C Taiyuan SHANXI RIBAO in Chinese 23 Jan 91 p 1

[Summary] In 1990 the per capita net income of farmers in Shanxi Province was 603.51 yuan, an increase of 45.8 yuan, or 8.9 percent over 1989.

Mauritius Officials To Negotiate Rice Accord

91AF0654Z Port Louis LE MAURICIEN in French 23 Jan 91 p 4

[Article by D. Dhoocharika: "Contract for 70,000 Tons of Rice Sought"]

[Text] A mission headed by Minister of Trade and Navigation Dwarkanath Gungah, who will be accompanied by Bijaye Ghoorah, the manager of the State Trading Corporation (STC), will leave for China next Friday to negotiate the purchase of 70,000 tons of rice (ration) from our principal suppliers.

On being questioned about the mission this morning by LE MAURICIEN, the general manager of the STC confirmed the report, stating that it is necessary to increase our rice reserves because of the hostilities developing in the Gulf region.

"The STC hopes to fill its granaries as quickly as possible, because we do not know whether or not the war in the Gulf will last a long time. However, the citizens of Mauritius should not worry about their rice supply. We have taken all the steps required to supply the population with the basic foodstuffs," he said.

A granary stock of 21,000 tons of rice has already been accumulated, and the STC is expecting the arrival of another shipment of 12,000 tons from China toward the middle of February. According to our information, the STC will negotiate contracts for a supply of rice in 1991-92 with the traditional supplier countries, including Pakistan, Thailand, Burma, and China. The price to be paid for these 70,000 tons of rice comes to 215 million rupees.

Jilin, Hunan Grain Prices

91P30099A Beijing JINGJI RIBAO in Chinese
31 Jan 91 p 2

[Summary] In January corn prices in Jilin Province dropped from 0.28 yuan per half a kilogram in 1989 to 0.23 yuan and rice prices dropped from 0.56 yuan to 0.46 yuan. In Hunan Province overall grain prices fell from 35 yuan in 1989 per 50 kilograms to 28 yuan and hog prices declined 20 yuan per head.

Anhui Cultivated Area Declines

91P30094D Hefei ANHUI RIBAO in Chinese
1 Feb 91 p 1

[Summary] In 1990 the cultivated area in Anhui Province declined by 112,000 mu. At the end of 1990, the total cultivated area in Anhui was 65,482,000 mu.

Shanghai Cotton Area, Output

91P30094E Shanghai JIEFANG RIBAO
in Chinese 2 Feb 91 p 1

[Summary] In 1990 the cotton area in Shanghai was 200,000 mu, gross output exceeded 12,000 tons, and the area yield was 64 kilograms. The planned cotton area for 1991 is 208,000 mu and gross output 12,000 tons.

National Cotton Procurement

91P30095F Beijing JINGJI RIBAO
in Chinese 11 Feb 91 p 1

[Summary] According to the Ministry of Commerce, by the end of January China had procured 3,808,000 tons of ginned cotton, a 27 percent increase over the same period in 1990, and fulfilled 87 percent of the plan.

Social Environment of Homeless Children

91CM0128A Shanghai SHEHUI [SOCIETY]
in Chinese No 69, 20 Nov 90 pp 19-21

[Article by Tao Zhiliang (7118 1807 5328) and Ding Jiaping (0002 0857 1627): "Homeless Children and The Social Environment"]

[Excerpt] [Passage omitted] China and the world classify those 14-years-old and younger to be children. The homeless children covered in this article are 14 years old or younger who have left home and are drifting in society, living through improper means.

I. Homeless Children and the Social Environment

The problem of homeless children is closely related to a certain social environment. We may analyze this problem from two aspects, the vertical and horizontal.

Analyzing it from a vertical point of view, the problem of homeless children in different historical periods is related to the major social problems of a definite historical period, and the problem shows clearly historical characteristics.

According to relevant data from civil administration departments, numerically speaking, Shanghai has seen three peaks in its population of homeless children since liberation.

The early period after liberation: In the two and one-half years from December 1949 to June 1952, Shanghai's civil administration departments housed 3,243 homeless children, or an annual average of 1,297.2 children.

Three years of natural disasters: From 1958 to 1960, they took in 14,105 homeless (abandoned) children, or an annual average of 4,701 children. In 1960 they took in 8,799 children, the highest annual amount since liberation.

The most recent period: In the five years from 1984 to 1988, they took in a total of 9,404 children, or an annual average of 1,880.8 children. In 1989 they took in 2,870 children, an increase of 22.4 percent over 1988, taking on the appearance of an upswing.

With regard to the characteristics of homeless children, the characteristics differed greatly in each historical period.

The early period after liberation: Due to the scars of war, most of the homeless taken in were orphans of society or those who drifted away from their parents and to the cities because of poverty.

The years of natural disasters: Because of reasons that are commonly known, and because of unplanned births, most of the homeless children in Shanghai's streets were driven out of other, famine-stricken areas, or they were abandoned because they were sick and had no medical care available to them. Over 50 percent of them were sick or disabled to various degrees.

The most recent period: The characteristics of homeless children have undergone tremendous changes. Take the 1,999 homeless children in 1988 as an example (the following figures will use these 1,999 as a base). Of these children, 49, or 2.45 percent, were orphans; 54, or 2.7 percent, had been abandoned; and 1,891, or 94.6 percent, were truants, runaways from abuse, delinquents, wanderers, child laborers or vendors, street performers, or beggars.

Because they had different characteristics, they were handled differently by the government.

During the early period after liberation, the problem of homeless children co-existed with the problems of a large, unemployed urban population and of vagrants. The government approved the takeover and reorganization of a large number of old children's shelter agencies and settled them there. After they took in the children, educated them, promoted them through the educational grades, allowed them to join the armed forces, and helped them find employment, most of the children became useful talents for the establishment of socialism.

The homeless children during the period of natural disasters obliquely reflected the mistakes of the economic and social policies in the era of the Great Leap Forward. On the one hand, urban governments dealt with the surge in abandoned infants and children by organizing forces to take them in and provide sick children with medical aid, and on the other, they actively promoted adoption enterprises and resettled tens of thousands of abandoned children in sparsely populated regions.

Reform and opening up has given China's economy and society new vitality, but it cannot be denied that as we devoted our energy to turning the economy around, we could not promote timely socialization or educational development, and society became imbalanced in parts, and a series of social problems arose. The problem of homeless children touches upon many social problems, such as theft, fraud, sexual promiscuity, prostitution, gambling, abduction, profiteering, child labor, selling children, truancy, etc. The 1,999 children taken in in 1988 included 765 who had violated laws or regulations, or 38.2 percent of the total. Their effect on and threat to society far outstripped that of the previous two periods. For this reason, the government and society faced much greater difficulties in educating and settling them. From a horizontal angle, we can analyze such aspects as politics, economics, society, school, and family by studying how the social environment of a certain period contributes to homelessness in children.

1. Political factors. Theoretically, socialism possesses a superiority that capitalism cannot hope to acquire. Therefore, the problem of homeless children cannot be discussed from the aspect of political factors. However, since socialism is still in its initial stage, unsatisfactory effects and certain factors have resulted in policy mistakes, including unsatisfactory or uncoordinated social

policies, which under certain conditions have also created the phenomenon of retrogression in a number of social issues.

2. Economic factors. We can analyze the problem from two sides—poverty and the deviations in guiding values due to a commodity economy. (1) Poverty. In China, because productive forces are not flourishing and economic development is uneven, naturally poverty still exists. Looking at it on the basis of the regional distribution of homeless children, there are two areas that tend toward extremes. One area is the villages, which took in 1,486 children, or 74.34 percent of the total. The cities took in 513, or 25.66 percent. The second area is areas that are economically underdeveloped. Anhui, northern Jiangsu, Jiangxi, Shandong, Guizhou, Sichuan, Guangxi, Hunan, Hubei, Xinjiang, Gansu, Shaanxi, Qinghai, and Hebei took in 1,581 children, or 79.09 percent, while Shanghai, Beijing, Tianjin, and Guangdong only took in 49, or 2.45 percent. Take Jiangsu as an example: the southern part, which is relatively more economically developed, took in 69 children, whereas the underdeveloped northern part took in 204, three times as many as the south. (2) The problem of the direction of guiding values. During the transition from a product to a commodity economy, traditional social structures, behavioral parameters, and value concepts inevitably undergo deep changes. If values become pluralistic, then there is an upward deviation in certain guiding economic and social policies, and the policies diverge from guiding values. This is manifested in the problem of homeless children who are child laborers and vendors. In Shanghai, there were 475 such children, or 23.76 percent of the total. Because of various reasons, there were only 138 who really worked in industry or commerce; because of a lack of food and shelter, most of the rest became beggars or thieves after coming to Shanghai. A second manifestation is children who are street performers; there were 593 such children, or 29.66 percent of the total. To a large extent, begging is no longer used to fill one's stomach, but has become a new way to make money. Examples can be seen in the street performing beggars in Dancheng, Henan, the monkey handlers in Yingshang County, Anhui, and those who beg aggressively at hostels, stations, docks, and parks. The third manifestation is scrap picking; a total of 360 children, or 18.01 percent, engaged in this behavior. This kind of scavenging is often combined with stealing or similar behaviors, and the intake of loot is sizable. The fourth manifestation is pilfering, scalping, and selling fake brands, etc.; a total of 376 children, or 18.81 percent, were involved in these activities.

3. Social factors. In the period of transition from the old to the new state system, people's perceptions of many traditional things broke down, while many new concepts had not yet taken a firm hold. The phenomenon where society loses its model leads to a set of social problems, such as society's mood, crime, gambling, leaving agriculture in favor of business, prostitution, abduction and selling of women and children, and short-term behavior.

All of these had an intimate effect upon the behavior of homeless children. Certain deviations in political policy resulted in the emergence of a floating population that was 50 million strong, and they were also a factor in the increase in the number of homeless children. Public propagation of commercialization, colorful martial arts or pornographic novels on the market, and videotapes and motion pictures all often contain things harmful to the mental and physical health of children. They stir up children's passions, affecting some to emulate the Tang Dynasty's Ji Hede [0679 6084 1795], who wandered all over the country after reading a story about mythical warriors. In 1988, about 340 children, or 17 percent of the homeless children taken in, fit into this category.

4. School factors. There is not a high degree of attention paid to education, and the impact the commodity economy has on education affects the school environment. For example, teaching methodologies are outdated, the educational ideology is not upright, and schools "stress the intellect and neglect morals" relatively heavily. The quality of teachers in the countryside was low; schools that emphasized earning income and improving teachers' wages also decentralized the school's educational vitality to a certain degree. In the chase for higher promotion rates, guidance for basic education shrank, and the number of students who disliked school, were truant, or dropped out increased yearly. Of the 1,999 homeless children in 1988, 371, or 18.56 percent, were dropouts or truants. Educational funding was insufficient, educational funds were poorly utilized, and the Voluntary Education Law was not implemented strongly enough; admission rates in the countryside, especially in poor areas, were not very high. Of the 1,999 homeless children, 259, or 48.32 percent, had never entered school.

5. Family factors. Disorderly family conduct exerted a subtle influence upon children's psychological changes; the misbehavior and mistaken ideals of parents were important causes for deviant behavior in children. The major family factors creating homeless children were parental misconduct, mistaken ideals, and problem families. Such problem families included broken homes, immoral families, and criminal families; families who were spiritually obstructive, overly indulgent, overly strict, or uneven in their discipline; and disharmonious and divorced families. These problem families frequently prevent children from socializing normally and can lead them to deviant behavior, or even to committing crimes. Of the 1,999 children, 411, or 20.56 percent, came from divorced homes; 195, or 7.95 percent, had step-parents, foster parents, or were adopted at birth; 368, or 18.41 percent, lacked love and had grown up with beatings instead of with education; and 301, or 15.06 percent, left home because of stealing. The latter group included chiefly those who were spoiled or not strictly raised. They were products of parents who had grown rich from individual enterprises and who gave money too freely; of parents who used cash to stimulate children to actively learn in school; and of parents who protected

them when they did wrong. There were 202 children, or 10.11 percent, from disharmonious families; 54 children, or 2.7 percent, were from immoral families (primarily those who had abandoned their children), and 27 of these children, or one half, were disabled. Criminal families and those with questionable parental conduct also contributed to the number. For example, out of 41 homeless children with Xinjiang origins who were in the shelter in Shanghai's noisy Nanjing Road district, 33 had parents who abetted them, set an example for them, or protected them in their stealing and lawbreaking. In addition, homeless children who scalped tickets or sold fake goods also had their share of parental tutors. [passage omitted]

Frustrated, Unemployed Postdoctorates

91CM0220A Shanghai SHEHUI [SOCIETY]
in Chinese No 70, 20 Dec 90 pp 16-17

[Article by Cao Wei (2580 5633) and Tian Jiuqiang (3944 0036 1730): "Postdoctorates' Sighs"]

[Text] Time and again, a problem that Chinese intellectuals have found difficult to articulate is one that the more knowledge one has, the more worthless one becomes. This problem has been noted over a number of years. Teacher's Day observances, honorary certificates, awards and speeches by progressive authorities, and so on, do not address the problem of satisfactory remuneration given for satisfactory work done. We recently visited some scientific research institutes and educational institutions without mobile postdoctorate stations and, everywhere we went, we heard similar comments and complaints.

The year 1990 marks the 10th anniversary that China's educational institutions have resumed training on the doctorate level. By 1986 we already had 238 institutions qualified to provide doctorate training and 3,798 doctorate advisers. At the end of 1985, 357 doctorate degrees had already been granted in China. In accordance with a suggestion made by Professor Li Zhengdao [2621 2398 6670] of Columbia University, mobile postdoctorate stations in the natural sciences were formally planned and established in July 1985, for the purpose of allowing postdoctorate returnees from abroad and those trained in China to further develop their research specialties.

According to statistical data compiled by the end of 1986, 44 researchers from mobile postdoctorate stations in China were participating in or were responsible for 62 important scientific research projects. Among them, eight were Seventh Five-Year Plan (1986-1990) scientifically and technically strategic projects, 12 were important projects on the ministerial or provincial level, and 42 projects covered topics in the forefront of science and technology in the world today, high technology, work supplementing research at home and abroad, and new topics for exploration. Generally, these research projects have progressed smoothly, and many of them have

achieved outstanding breakthroughs. This skeletal science and technology force is making important contributions to China's efforts in basic research and modern construction, but because of problems like inadequate housing and turning the relationship between mental labor and physical labor upside down over a long period, and the effect of the "study abroad fever," the movements of this present group of postdoctorate candidates particularly stand out.

Take the 110 doctoral students at Science Institute A for example. About 70 to 80 percent of each year's graduating class stay on at the institute to continue their studies, though 40 to 50 from the class also go abroad. While the hop-skip-and-jump phenomenon of going from "inland to coast to abroad" among postdoctorates has become increasingly marked, the tendency for the postdoctorates to become increasingly destitute as they pursue further studies and the feeling of "reaching higher does not overcome hunger and cold" become even more prevalent. Following an increase in numerous problems accompanying reform and heightened competition for the knowledge and talent that goes with a developing commodity economy, the movement of talent is inescapable. But our waste of talent and our indifference to it are frightening. Former president of the United States [Jimmy] Carter had said very aptly that the Chinese are found in every critical branch of science related to national defense. Americans even say "any university without a Chinese professor is not a first-rate university; any hospital without a Chinese physician is not a first-rate hospital." Now, why does China train a large pool of talent on one hand, and find itself lacking such on the other? Some doctorates say: "We do not expect our lives to abound in luxury, but we should not be encumbered by the demands of everyday living. Going abroad shows a lack of faith in the future."

Pressures from the burden of everyday life evoke the greatest reaction from postdoctorate students. Doctoral candidates with no work experience receive a monthly allowance of 98 yuan. Those with work experience are allowed an amount equivalent to the basic salary or wages they were paid before entering the doctoral program. At University B, a 36-year-old doctorate, married, with a family and 13 years of work experience, has a monthly income of only 113 yuan. He was very emotional when he said, "If I did not continue to pursue a master's degree and a doctorate, I would have qualified as a lecturer long ago, and my life would not be as hard as it is now." In 1986, he was selected to be a graduate student pursuing a master's degree in the information department of this university's library, and during a two-year period he wrote and published more than 20 scholarly papers, and received his degree a year ahead of time because of his excellent record. At that time he applied and was selected to study for a doctorate in education at the department of education of the same university. Now, his academic future looks exceedingly bright, except for his personal life, in which he is poor as a church mouse and encumbered with the demands of

everyday living. His schoolmates say he is a vegetarian who finds subsisting on soy sauce broth an ordinary routine. In earlier years he had been a miner, raising two children within state policy guidelines. Now his wife is elsewhere with their two daughters, one four years old, and the other only a year old. Their hardships can be imagined. I said to him, "From a long-range and health standpoint you should not overskip on your living expenses." But he replied in all seriousness: "Look at me here. I am studying education, but unable to give my children any rudimentary education. As husband and father, I always hope that I can take some small presents with me when I can visit over the holidays, to express my regrets..." What can I say to such a moving remark!

It is learned that doctoral candidates with lengthy work experience can receive an additional 20 yuan to a maximum allowance of 126 yuan, well below that received by an average Shanghai resident and still trapping them in strained circumstances. After they have received their doctorates and start working in a mobile postdoctorate station, their income will go up to about 256 yuan, of which 60 yuan must be paid for housing. But a young worker in a publicly owned work unit averages 200 yuan in monthly income. With their meager incomes, many doctorates who already have families are barely able to support just themselves; to support their families, they often have to depend on their wives to work, or on help from their parents. In response to the dire financial straits their families have fallen into, some doctoral candidates have quit their studies (when news of one such case was reported in the newspaper, many city residents sent money for him, but he had already left town). To cut down on expenses, these individuals wear their clothes until they are thin rags and their shoes become dilapidated shells. Some even shortchange themselves on diet basics.

With an austere life like that led by Buddhist monks testing our scholars, some of them do change course to climb a "high branch" (for more money).

At University B, a doctorate trained in France worked there for half a year, after which he took on a job as assistant manager at a hotel that was a Sino-French joint venture. In the beginning, his adviser and the university administration were very suspicious of his move, but gradually they came to understand his choice. In another case, a U.S.-trained Ph.D. who left China again after his return from abroad wrote that, although he was receiving only about 250 yuan a month (basic pay of 119 yuan and additional living allowance) in China, he was able to earn about \$7,000 a month working in the United States. His salary abroad for one month was the total sum of his earnings in China for five years. But he was still thinking about the scientific research he had engaged in while in China...

According to data released by the Bureau of Statistics, in 1985 the purchasing power of 100 yuan was needed to buy the same amount of groceries bought with the purchasing power of 37 yuan in 1952. On this basis,

living expenses of about 98 yuan for a doctoral student could buy only what would have cost 36.26 yuan in 1952. It does not matter whether or not prices went up before this, the fact remains that present commodity prices seriously threaten the livelihood of doctoral students. Often, the allowance received by many of them barely covers the cost of meal tickets purchased in the dining hall.

We examined the 1988 ZHONGGUO NIANJIAN [1988 CHINA ALMANAC] and found that, beginning in 1 December 1987, the State Education Commission had established research scholarships at 19 well-known institutions of higher learning, including Beijing University and Qinghua University, for graduate students from Hong Kong. Scholarship recipients were charged neither tuition nor room and board, and were given free medical care and living allowances. For doctoral candidates, living allowances were 2,820 yuan renminbi each year, and for master degree candidates, the figure was 2,580 yuan renminbi. From this reference data, we can find some justification for raising the living allowance for homegrown doctoral candidates. The proportion of postdoctorates among intellectuals is quite small, and contrasted against China's great population, this figure is like a drop in the bucket, as rare as a phoenix's feather or a unicorn's horn. So, to increase their living allowance is not a difficult matter, for it will have far-reaching effects.

Furthermore, we must look at the living conditions of these postdoctorates. A common colloquialism states that one must have peace of mind before one can enjoy one's work, but the housing problems facing the postdoctorates here have become a great hindrance to retaining such talent. At the mobile postdoctorate station at University C, there were 14 postdoctorates, some returned from abroad and some trained in China. Some did not stay at the mobile station for long—one left for Shenzhen and another for Fudan University. The immediate cause for their departure had to do with housing problems. For postdoctorates, this particular university only had two apartments, which were not large enough to accommodate all of them.

Institute A also faced a similar problem. It was possible only to ensure housing for all postdoctorates to live at the youth hostel during their research training period, but once their appointments terminate (after two years), the postdoctorates had to move out immediately. Otherwise it would have hampered subsequent turnarounds.

Also, at a certain research institute in Shanghai, no housing assignments had been given for eight years. Many postdoctorates realize that they cannot expect anything soon if their teachers are unable to have their housing problems resolved. Without a place to hang their hats, it is natural that they think about leaving.

At Normal University B, two doctoral students share a room about 10 square meters in size while pursuing their studies there. Should they stay on to teach, they live three to a room. The living environment is simple and

crude. The dormitory room is not only living room and bedroom space; it is also the work area. For two or three persons crowded into this space, there are bound to be disruptions. It is especially worrisome when a quiet environment is needed for one to concentrate on one's thesis. In spite of this, most people were able to stick it out during their course of study.

The problem of talent must be dealt with at first as a problem of one's will. If one has an inclination toward a goal, there is nothing that cannot be overcome. As some individuals want to realize their goals, they oftentimes become "crazyheads," "fools," or "idiots" in being willing to accept disadvantages along the way.

A doctoral student in the geography department of University B said he is studying remote-sensing geography, which is tied in with the exploration and development of eastern Jiangsu Province. He is working on a research project, "Population Migration Trends in Eastern Jiangsu Province," which has received favorable comments from his adviser and the Eastern Jiangsu Development Office. But after he had collected all his data and prepared it for computer processing, he found the basic equipment that he needed lacking. Though the school had a computer with graphic analysis capabilities that cost \$30,000, it was only for the use of faculty members. Students wishing to use it had to pay a fee. Now, for this student, there was not much left from his annual allowance of 900 yuan after he made copies of data collected at each stage of his project. This was the only computer in the department that also served other doctoral students with their projects. In view of this situation, this particular postdoctorate had hoped to complete his project during the summer vacation, but the rules for summer allowed the computer to be used only between 0900 and 1700, and when it was his turn, he had only the two hours during lunch break, from 1130 to 1330 to use the equipment. When his project kept on dragging like this, he was on the verge of giving it up altogether.

At Research Institute A, there was no way for many scientific researchers to have their papers published after they had written up their results. Some specialty journals informed them that their papers had been accepted for publication, but due to a lack of sufficient funds to finance publication, each researcher was asked for a donation of 400 yuan, of which 100 yuan would be returned as payment for the article. As it was impossible for many researchers to raise such a tidy sum within such a short time, the results of many scientific research projects could only be put on hold. While it has been difficult for results of basic research to be published, it is just as difficult for results of applied research.

At University C, a postdoctoral researcher was studying magnetic conduction techniques, but because the university was unable to obtain funding for it, he found it difficult to locate a research institute working on silicate research. When one was found and permission was requested for him to go there, the authorities said the limited scientific research money could not be spent abroad, and, to study the topic, the researcher must be transferred there. As the researcher's adviser in the United States saw something in his research topic, he was able to go abroad again. Because of this, he was very moved and said, "Our competition with our colleagues abroad is not done on a level playing field. Without adequate funding for scientific research and the backing of adequate equipment, our scientific research will always be behind."

If we say there are still individuals among master's degree candidates who think they are pursuing their degrees because they want a change of scenery, the attitude of doctoral candidates is completely different. Doctoral students pursue their studies because of their belief in their study projects and their enthusiasm for them. But "enthusiasm remains just enthusiasm," because the time when people can engage, without worry, in work they are enthusiastic about has yet to arrive! The Waxili [3907 6007 6849] type of belief that "there is bread, and all things are possible" has been swaying the souls of these individuals while the outside world is changing. China can no longer break the hearts of its intellectuals.

Profile of Air Force Deputy Commander Lin Hu

91CM0230A Hong Kong KUANG CHIAO CHING
[WIDE ANGLE] in Chinese No 219, 16 Dec 90
pp 64-67

[Article by Chen Li-ying (7115 7787 3853): "Chinese Communist Air Force Deputy Commander Lin Hu"]

[Text] Information from well-informed sources reveals: after high-level personnel adjustments in the Chinese Communists' seven military regions and Navy, there will be new adjustments and changes next year among high-level Air Force personnel.

The high-level officers in the Chinese Communist Air Force at the present time—General Wang Hai [3769 3189] (Air Force commander), Lieutenant General Lin Hu [2651 5706] (Air Force deputy commander), and others—can fly modern new-type warplanes and have brilliant combat records. They are high-ranking officers who can both command in battle and make tactical dispositions.

A Joke About Lin Hu

This joke was once told about Lin Hu. Two years ago Lin Hu appeared in public to take part in a large military exhibition, and a reporter from Hong Kong and Macao asked an expert at his side: Oh! Is Lin Biao coming too?

Also, a foreign reporter once asked: What is the relationship between Lin Biao and Lin Hu? Are they brothers?

In fact, there is not the slightest blood relationship between Lin Biao and Lin Hu. Lin Hu is from Zhaoyuan County in Shandong Province, and Lin Biao was from Huanggang County in Hubei Province. Lin Biao was born in 1907, making him 20 years older than Lin Hu. As a matter of fact, General Chi Haotian, the present chief of staff, and Lin Hu are both from Zhaoyuan County. However, their experiences in life have been different.

Lin Hu (1927-) is currently a deputy commander of the Chinese People's Liberation Army [PLA] Air Force and an Air Force lieutenant general.

Lin Hu Joined the 8th Route Army at Age 11

In 1938 Lin Hu, then 11 years old, joined the Shandong Military District units of the 8th Route Army. In eight long years of battles in the War of Resistance Against Japan, he led the difficult life of a guerrilla behind enemy lines and repeatedly distinguished himself in action. In 1945 he joined the Communist Party, and also became an outstanding battalion commander of the Shandong units.

In October 1945, Lin Hu, 18, was sent to the Tonghua Flight Training Dadui in the northeast. How did this training dadui come into being?

Learning To Be an Airman at Mudanjiang Flight School

Victory had just been won in the War of Resistance when the CPC Central Committee sent cadres to the northeast to found the Air Force. In March 1946 the first Chinese Communist military flight school was set up in Tonghua County, Jilin Province—the Northeast Democratic Alliance Flight School (abbreviated name, Old Northeast Flight School)—and it was the predecessor of the first air academy. Instruction had not yet begun at the flight school when it was bombed and destroyed by Kuomintang [KMT] forces. Its staff and cadets were forced to move to Mudanjiang Prefecture in Heilongjiang Province, where, after several changes of site, they located the school at the Hailang Airfield. In July 1949 the CPC Central Committee formally decided to found the Air Force and, with the 1st Dadui of the Old Northeast Flight School as its basic component, established in Harbin the First Bomber School of the PLA, the name of which was changed in 1986 to the First Flight School of the Air Force. Lin Hu was trained in this school in the early years.

At the beginning of 1946 Lin Hu entered the Northeast Democratic Alliance Flight School in Mudanjiang (its name was later changed to First Flight School of the People's Air Force) to learn to fly. He was personally instructed by Wu Kai [0702 1956], who had been at the Central Flight School of the Armed Forces of the Republic of China. At that time the Falcon fighter, left behind by Japan's Kwangtung Army, was used for training. His fellow cadets were Liu Yuti [0491 3768 2251], Han Mingyang [7287 2494 7122], and Wang Hongzhi [3769 3163 2535], all of whom later became famous. Lin Hu's marks at the school were excellent, and he was the first to fly "solo."

In 1947 he completed primary flight training and was assigned to the 1st Fighter Zhongdui led by Xia Boxun [1115 0130 0534]. In October 1948, when the Liaoxi-Shenyang Campaign was winding down, he accompanied the school on its move from Mudanjiang to Shenyang. At that time the school changed its name to First Flight School, and Lin Hu was the leader of his cadet class. In 1949 he graduated from the PLA Northeast Flight School. His strict training and strong will made him an outstanding airman in the future.

On 1 October 1949 Lin Hu led the group of aircraft that flew over Tiananmen to start the National Day ceremony and be reviewed. At that time the Chinese Communists only had 17 Japanese-made aircraft and U.S.-made Mustang (P-51) aircraft.

In the Aerial Review at the Ceremony To Proclaim the Founding of the State, His Conduct Was Outstanding

On 1 October 1949, in the aerial review group at the ceremony to proclaim the founding of the state, along with Xing Haifan [6717 3189 1581] and others, Lin Hu flew over Beijing's Tiananmen twice.

At 1600 sharp on 1 October 1949, the control tower received an order from You Jiang [3111 3068], head of the Air Force Military District Aviation Office at the Taiji Plant in Beijing.

"Aircraft, take off!"

Just then, a tank formation was passing through Tiananmen. All the tanks in the formation had been captured from the KMT and were now under the command of Liberation Army fighters.

Suddenly there was a tremendous roar from the blue sky. Seventeen aircraft, including Lin Hu's, flew over in tight formation. The red stars on their wings were clearly discernible. This aircraft insignia, designed by the Aviation Office of the North China Military Region, was the "August 1st" five red stars. Because the design of this insignia was not easily distinguished from that on Soviet aircraft, the members of the Aviation Corps, with reference to the insignia on U.S. military aircraft, proposed that a horizontal bar be added to the left and right sides of the five red stars, signifying the spread wings of an aircraft.

From that time on this insignia has been the one in constant use.

The flyers wore the Japanese-style one-piece flying suit, which was inconvenient to put on and take off. Later, at the suggestion of Aviation Corps personnel, it was changed to the jacket-style flying suit.

In the T-shaped Tiananmen Square, about 300,000 people, jumping up and down, waved caps, handkerchiefs, and scarves. Many of them brandished newspapers. On the Tiananmen rostrum Mao Zedong, grinning from ear to ear, waved greetings.

It was the idea of the Soviet adviser to have the aircraft and tanks appear at the same time above and on the parade ground, as it was the best opportunity to display the power of the PLA. The Soviet Union had done the same thing in its troop review in Red Square. Standing on the reviewing stand, the Soviet adviser, observing the full realization of his intent, faintly nodded his head.

At the time foreign news agencies reported that the Chinese Communist Air Force, with the Mustang P-51 fighter as its main component, had sent 26 aircraft to take part in the ceremony. Overnight there would be a show of substantial air power.

Clearly there were 17 aircraft, divided into five groups, including nine P-51's leading the way, two Mosquitos, two communication aircraft, and three transport aircraft. A first-grade pupil could count them. How could there be 26 aircraft?

There were really 17 aircraft that flew over Tiananmen, and there were also really 26 aircraft that flew over Tiananmen—no mistake. Absorbed in their joy, none of the reveling people counted the aircraft, but attentive

foreign reporters did. However, they failed to take into account the fact that Lin Hu and others flew over Tiananmen twice.

In 1949 Lin Hu was the Chinese Communists' number-one combat flyer. In the same year he was appointed commander of a dadui in the 4th Regiment of the newly formed 2d Division of the Chinese Communist Air Force (Liu Yalou [0491 0068 2869] was the commander and concurrently political commissar of the Air Force). Lin Hu accompanied the 2d Air Division (Xia Boxun was the division commander) when it was transferred to a base in Shanghai, and he took part in the resistance to air raids by KMT B-25 bombers. In early 1950 the division was transferred to a place along the Northeast Railway Line.

In the Korean War He Shot Down One American Warplane and Damaged Another

The Korean war broke out in June 1950, and Lin Hu switched to training with the MiG-15 jet aircraft. In early November 1950, he was appointed deputy commander of a regiment of the 2d Air Division. In the spring of 1951, he was promoted to commander of the 52d Regiment of the 18th Air Division, which had been newly formed in Guangzhou (the division commander was Zhu Yunquan [4281 7189 6197]). In 1951 he began his participation in resisting U.S. aggression and aiding Korea by leading the first group of airmen of the Chinese People's Volunteers into the Korean war. Accompanying the 18th Division deep into Korea, in October he commanded the 52d Regiment in the great air battle over the Chongchon River, personally shooting down one U.S. aircraft and damaging another.

In 1958 He Commanded Aircraft That Shot Down Two Taiwan Warplanes Over the Taiwan Strait

After the Korean war Lin Hu was appointed inspector-director of flight techniques for the air forces of the Chinese Communist military regions. He was then promoted to deputy commander of the 18th Air Division and transferred to a base in Guangdong. In September 1955 he obtained the military rank of air force lieutenant colonel and was assigned to a base in eastern Guangdong, where he regularly led flying units. In 1957 he was promoted to commander of the 18th Air Division, at which time he already had 1,000 hours of flying experience (he was 31 years old). In the skies over the Taiwan Strait he opposed the KMT Air Force (having switched to the MiG-17 fighter). The unit under his command trained the Zhao De'an Zhongdui (later renamed the Thunderbolt Zhongdui, and even later designated the Heroic Airmen Zhongdui). In the summer of 1958 he led his unit in air battles over Chinmen Tao [Quemoy Island] and Taiwan Strait. On 29 July the Zhao De'an Dadui, which he commanded, shot down two Taiwan air force aircraft and damaged another, among them the warplane of Major Liu Ching-ch'uan [0491 2529 3123]. The MiG-17's they flew attacked F-84 warplanes. Out of this battle were forged Dong Xiaohai [5516 1420 3189]

and other combat heroes. In 1963 he was promoted to chief of staff of the 2d Air Army in the Guangzhou Military Region (An Zhimin [1344 1807 2404] was the army commander). Later he led units in support of military operations in North Vietnam. The units shot down many U.S. aircraft (including pilotless reconnaissance planes).

After the Cultural Revolution Lin Hu in succession held the posts of director of the Military Region Air Force Training Department, deputy army commander of the Air Force, director of the Air Force Command Center, Military Region Air Force deputy commander, and deputy commandant of the Air Force Academy. At the beginning of 1985 he was appointed Air Force deputy commander. In September 1988 he was given the rank of air force lieutenant general. He has been awarded the Liberation Medal, Third Class.

Anti-U.S. Sentiment in Military View of Gulf War

91P30097A Hong Kong KAIFANG [OPEN
MAGAZINE] in Chinese No 78, 15 Feb 91 pp 6-7

["Special Report" by "Special Correspondent in China":
"Anti-U.S. Undercurrent in the Chinese Communist
Military"]

[Text] Last week this publication reported that, following the UN deadline, the Chinese Communists would be playing peacemaker. We also predicted that war would erupt within a week. No sooner had last week's edition been published than the war of the century erupted as expected. Up to now the war has gone on for almost 12 days. Under global media competition, the events of the war as they happen are extended into millions of households. But what are the developments on Mainland China, which are of such concern to our readers?

We exhausted every possibility in our search for channels of information; we contacted many different informed persons and investigators. They appreciated our basic assessment of the war, especially the concept of "inevitable war"; however, they pointed out that China is the country with the most ambiguous and disconcerting attitude toward the war.

The Politburo Settles the Nature of the War

An anonymous Chinese Communist cadre introduced to us what he knew about the important points of the 20 January Politburo meeting. He said that the task of this meeting was to clarify the nature of the Middle East war. According to customary Chinese Communist methods, the nature of any major person or event must be defined from the outset; that is, as far as people are concerned, does their case represent a nonantagonistic contradiction [among the people] or an antagonistic contradiction [between the enemy and ourselves]? And as far as wars are concerned, is it a just or an unjust war?

The conference accepted Jiang Zemin's thesis; the general secretary clearly pointed out, "The War in the Gulf is a struggle between the big hegemonists and the small hegemonists." The position of the Chinese Government as advocated by Li Peng—"We should demand Iraq's unconditional withdrawal from Kuwait, and we should employ political and diplomatic methods to peacefully resolve the crisis in the Gulf"—was discussed. Li Peng said that we have grave reservations regarding a "peaceful resolution" if the troops of the coalition forces led by the United States seek a military resolution. The internal contradictions with the Third World will always hold only second place to the contradictions regarding the West.

The source said that the conference issued two corresponding directives: pay attention to the direction of ideology in the troops and strengthen the study of actual combat in modern warfare.

A Fear-of-War Psychology Appears Among the Defense Troops

The attitude of the authorities was soon sensed by the residents of Beijing. When the war started, relatively lengthy reports on "The United States Declares War on Iraq" appeared in the newspapers and on television. However, after two or three days, there was a notable decrease in such reports and they appeared only in inconspicuous places. Sources reveal that the central Propaganda Department and the Beijing party committee's Propaganda Department criticized the media for giving too much coverage to the war and for propagandizing for the United States. Central Chinese Television's "Economic Forum" was mentioned in this criticism.

Meanwhile, representing the Military Commission and the General Political Department, Yang Baibing sent down a directive for general departments, service arms, and military regions to pay attention to the ideological demeanor of the soldiers and officers. This was necessary because it had already been discovered that, after the outbreak of the Gulf war, a fear of modern warfare had appeared among a portion of the officers and soldiers. Yang instructed that the political indoctrination of the troops be prosecuted unrelentingly; he said that the ideology of the people's war remains the cherished tradition of the Chinese Army. Yang demanded that education in military history be strengthened, and that equipping with modern weapons not be neglected, but that there must not be sole reliance on weapons as the sole means to win war.

Some intellectuals observed that, on the first day that the electronic billboard at Wangfujing's southern entrance presented news of the war, the word "liberation" in the phrase "liberation of Kuwait" appeared in quotation marks. This meant that the officials did not consider the military actions of the UN coalition forces as really

"liberation." At the scene, a bespectacled youth laughed and remarked, "If it isn't liberation, then what is it—invasion?"

The Majority of the Common People Support the Coalition Forces

Few people know of the officials' and civilians' intense reaction to the outbreak of the Middle East war. On the one hand, the majority of the masses support the coalition forces under the command of the United States and disdain Saddam's aggression in usurping Kuwait. Scanning the television and listening to the Voice of America have reached new heights. During office hours, workers discourse on the events of the war; know-it-alls all want to reveal their level of knowledge and their prophetic abilities. Foreign reporters characterize them as "all apparently having become military strategists." It is said that disputes have arisen in some units and households during discussion of the war, to the point that people are left with sour feelings in their stomachs.

The most radicals elements have even approached the U.S. Embassy and Government, asking to go to the Middle East to participate in the war.

Officials have attributed this reaction by civilians to the Western influence of recent years. One city government official declared his exasperation: "There are too many people listening to the Voice of America right now; why should we care so much about it? The war is, after all, a matter for the Middle East to worry about—we can't hear the sound of artillery fire over here in China."

The Military Organizes Study of the War

On the other hand, the anti-U.S. mood of officials has been increasing. The major concentration of this sentiment is in the military. Since the beginning of the war, the General Staff Department has coordinated strategic and tactical "combat research" amongst high-level military research units. Officials have labeled this war as a rare, highly modernized sand-table war.

A heated debate has occurred among the military strategy researchers. One group supports the UN resolution; they believe that the small hegemonist Iraq should be taught a lesson and Kuwait should be recovered. However, another group opposes involvement of the U.S. military in the Middle East dispute.

Opposition to American Military Involvement in the Middle East

Recently, an Overseas Chinese who has good relations with technical departments of the Chinese military discussed with us his views regarding what he called the "anti-U.S. faction in the military."

First, this faction is deeply opposed to the U.S. "use" of the support of the majority of nations in the United Nations to carry out allied interference in the problems of the Middle East. This faction has studied President

Bush's two speeches and has declared them "too hegemonistic." One officer disdainfully remarked, "What new world order! Isn't it just superpower hegemonism? U.S. television even openly declares that this world is run by the United States—We don't buy that!"

This faction does not accept the basis for the U.S. dispatch of troops—Iraq's invasion of Kuwait. "Israel has invaded and occupied Palestinian and Arab territory many times, so why hasn't the United States sent troops to punish Israel?" Some people have revived that famous cold war criticism of the United States as being "police-man of the world." These people say that the United States has always been thus; sending troops to Korea and Vietnam in the past, and not long ago sending troops to Grenada and Panama. Some people even vilify the United States as undemocratic. With so many people against the war and deaf to differing opinions, it is difficult to get an opposing word in edgewise.

Their Evaluation of Husayn Gets Better and Better

Second, the evaluation of Husayn is getting higher and higher. A young staff officer declared that he admires Husayn. "At present, there is not one country that could withstand such pressure! Husayn is a real man; if he dies in battle, Baghdad will become the second Mecca and Muslims will go on pilgrimage there, to rub the black stone."

Military figures appreciate the delaying tactics used by Husayn. They believe that Husayn's concealment of 60 percent of his troops underground, and his having his planes fly to neutral territory in Iran are two strokes of genius—tactics in accordance with Mao Zedong's military strategy. When fighting the Japanese, the Chinese Communists used tunnel warfare; in the Korean war, they relied on tunnel defenses.

They Believe That Iraq Will Not Lose

As to the outcome of the war, the members of this faction absolutely do not think that Iraq will be defeated or will surrender. Their main reasons for this conviction are: 1) The international Islamic community does not hold that this war is a war that will destroy Iraq; Iran and Pakistan have said this. 2) Modern weapons are not the sole determinant in the outcome of a war; taking into account Husayn's tenacity and the religious fervor of his people, Iraq should be able to entangle the coalition force. With time, the U.S. troops should become more and more bogged down.

The United States Will Mobilize Tactical Nuclear Weapons

Chinese Communist military leaders above middle age are all realists. Our source couldn't understand how such a strong Maoist influence could remain in the military after 10 years of opening up. "The influence of the conflicts in Korea and Vietnam that so directly affected them is too deep. At that time, they believed that the United States could not win. This time they also believe

that the United States cannot win. They say that Korea was a frozen land, Vietnam was a squalid jungle, and now there is Iraq, a great desert; the conditions are not favorable to the United States."

Finally, our source revealed to me some of what he knew about military secrets: Chinese intelligence departments have already obtained reliable information that, if the war continues, Iraq will use chemical and biological weapons, prompting the United States to mobilize tactical nuclear weapons. The destructive level of the war will rise, but nuclear weapons will not be sufficient to decide the outcome, and the conflict will escalate into a guerrilla war, with Iraq and Iran pitted against the United States. This is the conclusion of quite a few people in the Chinese military.

Hawks Advocate Sending a Voluntary Military Force

What assistance will the Chinese give Iraq?

Our source said that the Chinese abstention from voting at the United Nations was the most forceful support. However, it is said that military officials of a relatively radical bent advocated sending a volunteer military force to enter in the war once it turned into a guerrilla war. These officials also held that the party center should be more rigid, should openly condemn the United States, and should speak up on behalf of the Third World. Then, they believe, the United States would treat China even better. These officials viewed the abstention at the United States as a mistaken policy.

EAST REGION

Shanghai To Invest More in Cultural Undertakings

OW1702052291 Beijing XINHUA in English
0235 GMT 17 Feb 91

[Text] Shanghai, February 17 (XINHUA)—The Shanghai Municipal government will allocate three million yuan and the local banks will grant 10 million yuan in interest-free loans a year to support the creation of film and television programs, the PEOPLE'S DAILY reported today.

This is aimed at enriching the cultural life of residents in this China's leading industrial center, according to the national paper.

The past few years saw the municipal government adopt a series of preferential policies to encourage people to produce more books, theatrical performances, art works, films and television programs.

The city has set up funds to support publications, the advancement of culture and social science research.

Last year, the city sponsored a package of entertainment activities, such as "The 1990 Shanghai Art Festival" and "The Third Shanghai International TV Festival."

The Third National Book Fair held in Shanghai last August drew 220,000 visitors and sold 1.4 million volumes of books.

CENTRAL-SOUTH REGION

Guangdong Circular Calls for Helping Poor

HK2502061291 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 23 Feb 91

[Text] Recently, the general offices of the provincial party committee and the provincial people's government jointly issued a circular calling on units directly under the provincial authorities to assume responsibility for the work of helping the poor in various areas, further improve their work in this regard, and fulfill their respective tasks of helping the poor.

The circular said that apart from continuously assuming responsibility for the work of helping the poor in 25 counties, units directly under the provincial authorities should also assume such responsibility for five other counties and one area, including Lianxian County, Yingde County, Longmen County, Xinfeng County, Haifeng County, and the suburbs of Qingyuan City, and for some townships and towns of Yangshan County and Liannan County, which are famous for their calcareous rock. The units directly under the provincial authorities as well as the central units based in Guangzhou, which have not yet participated in the work of helping the poor, should start assuming responsibility for the work in various areas.

The circular demanded that units directly under the provincial authorities should dispatch work groups to the counties and areas for whom they have assumed responsibility and should not stop helping those counties, townships, and towns until they eradicate their poverty.

NORTHWEST REGION

Modern Uyghur Literary Work Published

91CM0210A Urumqi ZHONGGUO XIBU WENXUE
[LITERATURE OF WESTERN CHINA] in Chinese
No 12, Dec 90 pp 58-71, 10

[Fiction by Muhamed Bahklash (4476 4988 7817 1795 1572 2706 0998 6007) (Uygur nationality), translated by Zhang Hongchao (1728 1347 6389): "Crime and Punishment"]

[Text] *Dear Reader: Literature, or a literary work, is a fleeting thing. For the boundless space of imagination and thought, the only criterion for the space is a lack of limits. It has no fixed and immutable form. This space can encompass all the imaginings of the writer himself; furthermore, of greater importance, every reader who likes this space can control it within the scope, the scale, and the depth of his own desires. Such has been the case since time immemorial. Although there seem to be no writings in the category of full-length novels, medium-sized novels, short novels, or zu [4809] poetry in our classical literature, actually stories, epics, long poems, myths, and legends have engaged our readers for thousands of years. "Crime and Punishment" is one such space among them. that readers who find it interesting can control according to their own desires, assigning to it any designation they wish such as medium length novel, epic, or story. This work's subject, structure, type, thinking, and form are all nothing more than a space contributed to the esteemed reader in which you can give free rein to your imagination.*

The author

The truck snorted like a tired old horse laboring under an overload. Even though the gas pedal was already down on the floor, the truck could go no faster than it was going. The fidgety driver stomped the gas pedal harder and gripped the steering wheel, momentarily lifting his backside from the cushion to peer ahead anxiously.

The driver hated this truck. He was unhappy about trucks made like this one and even about trucks themselves.

The destination lay far away, and the road was endless. It was really a long and slow journey, so long that it made one tired to think about it....

The road winding along the waist of the dark and bald mountain, which seemed like a shadow in the sky, seemed like a belt. Where this mountain began and where it ended, even the driver did not know. Nor did he

know the places it went through... Since it was so long, the driver did not know when he would arrive either. The truck wound its way along the waist of the deeply slumbering Tian Shan like the belt of a Kashgar wrestler. On the belly of the dozing, bald, barren, and arid land, which lay cracking beneath the fiery sun, it crawled ceaselessly like an ant for three days without reaching its destination!

The harsh and boundless ancient land went on endlessly like a neverending journey in the Tale of the Thousand and One Nights...even longer than imaginable.

The driver glanced at the empty seat to his right where no one sat. It had been empty for the past 3 days. The driver was alone, all by himself...

"Master. Do you want a smoke?"

The driver stuck his head out from under the hood and looked at the tall young lad. All he saw was a tousled head, one slant eye, and a thin face, across which flickered an indolent, completely carefree, and leering expression. His mouth and both hands were chapped by the desert wind, and he was wearing a faded cowboy shirt and trousers.

"I'm going to buy a wife. How about a lift..."

"Buy a what?" the driver arched his eyebrows.

"Buy a wife..."

"You mean buy a donkey..."

The young lad began to be somewhat flustered, but then the muscles in his face relaxed, and he broke into a toothy smile.

"No, master... Can a donkey be bought to act as a wife?"

"Well, is it possible to buy a wife too? If you don't have a donkey, you can buy one in the market. Why don't you say you are going to 'get married,' or 'take a wife?'"

"It's all the same..." The young lad unconcernedly wiped his nose, but when his gaze fell on the driver's face, he immediately changed his words, "Oh, no. I was just saying..."

There was still the mountain, and there was still the road. The old "Jisi" chugged along reluctantly as though it had a pain somewhere. Another truck came from the opposite direction, and the driver moved his vehicle a little to the side. As the other truck passed, the dust it kicked up entered the driver's cabin. His nose tickled, and he sneezed violently. The driver's cabin was filled with dust, and he could not even see the road clearly. The driver slowed down and glanced to the side. The cabin was empty. He was all alone. He wiped away the dust that obscured the windshield, stepped on the gas, and the truck roared as before, picking up a little speed.

"Get in!"

The slant-eyed young lad who was waiting for these words hurriedly climbed into the cabin. The driver started the truck.

The air was stifling and the asphalt on the river flats highway melted. When the truck pressed down on the surface, it became sticky.

"Are you a Uyur?" the driver asked. From the pronunciation and tone of the words that the slant-eyed young lad had just spoken, he clearly sensed harshness as though from a person who had just learned the mother tongue.

"I'm Aoerwuyi."

The young lad answered offhandedly, a "Sabre Brand" cigarette dangling from his lips. This was a foreign cigarette that seemed as fashionable as his cowboy pants.

"Are your parents living?"

"My father is dead; my mother is still alive. My mother is also very ailing..."

Once he got into the truck, Slant-Eye acted self-importantly. His former obsequious demeanor was now entirely gone. He seemed to reply indifferently to the driver's questions, as though displeased.

"He's an ungrateful dummy!" the driver thought. "He jumps from one thing to another, and is fickle..."

"What's your mother's name?"

A cigarette dangled from slant-eye's lips:

"Pasha... Khan."

"You don't even know your mother's name!"

"I know it. Didn't I just say it was Pasha Khan?"

Slant-Eye was a bit impatient, he spoke with a very heavy accent, rather harsh.

"No; your mother's name is Shapa Khan."

Slant-Eye suddenly looked at the driver, his tone very harsh.

"I told you the truth."

The slant eyed lad cast a questioning glance toward the driver.

"You said you know your mother's name, but why did you call yourself an 'Aoerwuyi?'"

"If I don't call myself an Aoerwuyi, what should I call myself?" Slant-Eye said roughly. The driver suddenly bristled.

"Why don't you say Uy..gur? You said 'Aoerwuyi,' And also said, 'My mother's name is Shapa Khan. Do you understand? If you don't even speak your mother's name clearly, what kind of person are you?"

"It's the same. Aoerwuyi or Uygur, what difference does it make to me?" Slant-Eye said, completely unconcerned.

"It's not the same!"

The driver shouted angrily, the veins on his neck standing out and his face becoming as red as fire. The slant-eyed young lad was suddenly frightened. Seeing the driver's face, he was so scared he shrank back into a corner of the cab.

"Even a dog knows that it is a pup, but you say you are called... called an 'Aoerwuyi'?" The driver contorted his mouth in an imitation of the slant-eye, enunciating each and every syllable. Both the way he spoke the words and their sound seemed very fierce. "You are a man. If you do not know whose offspring you are, and if you even call him by the wrong name, aren't you worse than a dog! Dogs have dog language. They say, 'I am a dog.' This is more correct and better than your saying, 'I am an Aoerwuyi.' You're not even as good as a dog!"

"Yes...I am a dog..." the slant-eyed youth stammered out of fear.

"No! You're lower than a dog!"

"Yes...yes...yes. That's right. I'm lower than a dog..." The insulted Slant-Eye looked fearfully at the blue veins on the driver's bloodless hands clutching the steering wheel. His haughty manner had now disappeared, and he seemed as pitiful as a young ewe that had just been stepped on by a ram, curled up in a ball.

Suddenly the truck coughed and backfired. The driver was afraid that something might go wrong with the truck before they got out of the mountain. He looked gloomily at the empty seat on the right side of the cabin, which was still empty. If there were someone there, even if the truck broke down, he would not be so alone...

The driver freed one of his hands and fished cigarette paper from his shirt pocket, very quickly rolling a cigarette. When the slant-eyed youth saw both of the driver's hands were off the steering wheel, he gripped the armrest tightly with fright. The cigarette dangling from his mouth, the driver took hold of the steering wheel, and only then did the slant-eyed young lad's heart come back down from his throat, and he hurried to take out a match to light the driver's cigarette. The driver pushed his hand aside. Taking a gas lighter from his shirt pocket, he lighted the rolled cigarette and inhaled deeply.

"Is the maiden you are going to marry pretty?" The driver's tone was now gentle and kind, and the muscles in his face were also relaxed.

Ah, a Uygur hand-rolled cigarette is water that puts out a fire and a halter that tames a wild horse. A deep puff goes into the lungs suddenly, while at the same time a particularly fragrant aroma slowly turns round in the brain, causing you to float upward in an ecstasy of joy.

The slant-eyed young lad's fears calmed, and he took a breath.

"It doesn't matter whether she is pretty or ugly. When they said she was mine to marry, I agreed. If they said she was not mine to marry, I would not marry..."

"Who said she was yours to marry?"

"My mother..."

The atmosphere in the cabin eased. There seemed to be a touch of springtime in the air.

The truck finally crawled to the top of the slope, and the driver put it in neutral to let it roll down the other side. The wheels made a happy sound, and a fresh breeze came into the driver's cabin through the window.

"Thank Allah!" the driver thought. It looks as though the truck won't break down. Suddenly he looked again toward the right side of the cabin where no one was sitting.

"Master, why don't you hurry into the city to our house to eat and rest a while before you go on?"

"Didn't you say your mother is sick?"

"No. Not our house. It's the home of the woman I am going to marry. She lives not far from our house. She's a next-door neighbor."

"Okay..."

When the buildings of the city finally came into view, the driver slowed the truck.

"Go right... Fine... Now to this side. It's that street with the trees..."

When the driver arrived in front of a courtyard surrounded by trees, he stopped the truck. The young lad got out of the truck and went into the courtyard. The driver got out of the truck, and, out of habit, kicked the tires and leaned over to look under the truck.

"Oh my. Please, please, young master. We want to be of service to you..."

The driver stuck his head out from under the truck to see a good-looking woman standing respectfully before him, her hands crossed over her chest. She was more than 50 years old, tall, slender, with completely jet-black hair. The slant-eyed young lad, a cigarette dangling from his mouth, was standing behind the woman looking at the driver. The driver returned the greeting, and the woman received his greeting with a bow.

"Please, young man. Come into the house..."

The driver stuffed his gloves into his pockets and was led into the courtyard by the slant-eyed young lad. Around the courtyard stood six or seven rooms, but none of the walls of the rooms was finished. They were covered from top to bottom with holes like sparrows nests. For some

reason, not just the walls, but the courtyard, the ground, the bread oven, and the hearth were filled with holes big enough to stick a hand in. Without waiting for the driver to figure out the reason, the woman urged him along, saying:

"Please, young master, through this door...into that room...."

The slant-eyed youth opened a door. The driver entered the room and was suddenly stunned. The room was decorated very prettily, and was very spacious as well. Below a blanket-covered kang [brick bed] a young lad knelt, both hands held against the floor. The driver did not know what to do. He stared at the young lad.

"Please, young master, sit on the kang, please..."

The driver recovered his composure with difficulty, then started to get on the kang by supporting himself on the wall.

The woman quickly restrained the driver. "No, young master. Please step on this boy's back to get on the kang."

"What? Step on his back?" The driver was dumbfounded.

"Yes, young master. This is our house rule. When guests come to our house, they all step on this boy's back to get on the kang. If an older guest comes, he steps on my back to get up. Please..."

The driver stared dumbly.

"How can I do such a thing? He is a person like me. How can I treat him like a little bench and step on..."

"A thousand pardons, honored guest. Since his father left home, this has been the rule in our family. The dirt from your two esteemed feet brings luck to us. The dirt that falls on our bodies from your feet is a magical tudiya [0956 5530 0068]. We implore you not to let us lose this precious opportunity..." The woman cried, lowered her head, and crossed her hands over her chest.

"No, I cannot step on a person's back like stepping on a piece of tattered carpet." The driver categorically refused.

"Sob... sob..." The young lad kneeling on all fours on the floor suddenly began to wail loudly.

Surprised, the driver stopped and looked at him. He was a grown lad about 20-odd years old. Unexpectedly, he began to bellow like an ox, his cries filling the entire courtyard.

"Young master, you see. This boy is wailing bitterly because 'I am unable to get the guest to step on my back.' His heart is broken. young master, show mercy by bestowing a favor. I will kneel down for you," the woman implored sorrowfully.

The young driver finally gave in, walking over to the wailing young lad. The young lad immediately went down on the ground on all fours in preparation, a smile breaking out on his face. The driver raised one foot reluctantly and placed it on his back, then stepped nimbly to the kang.

"This young master does not have a heavy step at all. It is very light, very light..." the young lad muttered, not very satisfied. Next, the son-in-law to be of this household, the slant-eyed young lad, stepped on his back one foot after another as though climbing stairs.

The driver recited a brief passage from the Fatihah [3127 6167 0761], stood up, extended greetings, and invoked peace, then sat down. The slant-eyed young lad sat staring at the driver's every move in the same way he had done the first time he saw the driver. The woman immediately placed layer-upon-layer of silk cushions where they sat...

The road stretched toward the plain, and the driver's disquiet increased. He felt that the truck went slower than formerly.

This trip was his second meeting with her. Tears flowed from her beautiful eyes. This time she was certainly anxiously longing for his arrival.

"Let's drink now," the slant-eyed young lad said to his future mother-in-law after eating the food on the evening tablecloth without lifting his head throughout.

"All right, young master. We want to please you. Go, son. Get some wine," the woman said, looking at the young lad who served as steps. The young lad was talented and good-looking. He went out, returning shortly with three bottles of white wine, which he handed to his mother.

The truck went faster and faster. Feeling he was in some danger, the young lad applied the brakes slightly. The brakes had plenty of air pressure. The driver relaxed. The truck, buzzing like bees in a gourd, sped forward.

"I have to drive, so I won't drink anymore," the driver said politely, pushing aside the glass of wine that the slant-eyed young lad had handed him. Slant-Eye handed the wine glass to the woman, then poured another glass to give to the woman's son.

"Please, young master," the woman said raising her glass. Her fingernails were as long and as sharp as bird claws, and totally lacking in rosiness. The woman and her son emptied the wine glasses in a gulp. Among the Uygurs, women are positively not allowed to drink wine, and for a future son-in-law to drink with a mother-in-law is even more dissolute.

Seeing an unthinkable scene before his eyes, the driver just sat there, staring.

Slant-Eye poured some more wine into a glass and drained it again. Before very long, he had drunk more than a bottle of wine.

Slant-Eye filled the wine glasses, and, looking at the woman and her son, said:

"I'll pour another half glass and drain it with you."

"Please, young master. We want to serve you," the mother and son replied in unison, their hands crossed over their chests.

"Why can't you treat your mother-in-law the same way as you treat your mother?" the driver said to Slant-Eye in a low voice.

"She's not my mother," Slant-Eye grumbled loudly. "I am marrying her daughter. If she wants to marry me, I will marry her. If she does not want to marry me, I will not marry her. I never called the woman who gave birth to me 'mother,' much less will I call this woman...." The Slant-Eye became tongue-tied.

"Why don't you call your mother 'mother'? She gave birth to you and brought you up!"

"Who told her to bear me? I never told her to 'bear me.'"

The driver was taken aback. Angrily, he looked at Slant-Eye's ugly face and, controlling himself, said,

"The Uygurs respect their parents. They do not drink wine in front of elders and old people. They particularly respect their father-in-law and mother-in-law. But you behave carelessly and without restraint before elders. You don't even call your mother mother, and you force your mother-in-law to drink. Aren't you ashamed?"

"I don't acknowledge people as being above me, and I don't have to acknowledge them. No one is my elder, and I don't recognize anyone. Old people are..."

Now he left no room to say anything further. The driver said nothing. Soon the third bottle of wine would be finished. Slant-Eye's ears began to twitch. This was a sign that he was drunk.

The driver was looking straight ahead. It was still an asphalt road. The narrow road, which wound along like photographic film, went flying to the rear like a conveyor belt carrying coal. Now, the mountains were also lower and the desert was broader. The truck was speeding along, squealing like a wild boar.

The driver's gaze suddenly fell on the bowls standing on the round table opposite the kang, which were moving along one after another. At first the driver thought that possibly his eyes were deceiving him, but the bowls really were moving, each one getting closer to another. Then, it was not just the bowls, but the barrel full of water in the corner, and the broom, and the shovel also came to life slowly, each one moving closer to the other. The driver stared silently. Suddenly the spoons, the chopsticks, the

plates, the bowls, the glasses, and the bottles on the tablecloth all came alive, one moving toward the other.

The truck reached the river flats. The scorching flow of air was stifling. Far off in the distance, a mirage was shimmering. It was truly like glittering rocks and flowing gold. The driver felt as though someone had muffled his mouth and nose. He could scarcely breathe. He opened up the windshield. A hot wind blew in from ahead. The driver stomped on the gas pedal and the truck speeded up. In the western sky, the sun hovered like a dark red fireball.

Suddenly, the room began to resound with clanging and banging sounds. The bowls and dishes, the chopsticks and spoons, the barrel and the water vat, the bench and the round table, the broom and the butcher knife clattered together in an endless din. The driver's heart wanted to bound out of his chest, and he sat there, a trembling mass. Suddenly the young lad slapped his mother's face, and the mother returned the compliment, giving her son a resounding slap in the face. Then the two began to jump around in a fight with each other. After a while, Slant-Eye jumped up from his seat and began kicking the mother and her son who were tumbling about in a ball. The sound of their panting, groaning, and cursing at each other, mingling with the clanging and banking together of the furniture and utensils, created a terrifying scene.

The driver was seized with an impulse to stand up. He jumped down from the kang and ran toward the door.

This is a very long river flat. It will take a long time to traverse it, and the road leads into dark, burned-looking mountains. The driver pushed down hard on the accelerator. Sometimes the accelerator beeped like a newly hatched bird, and sometimes it chirped like a magpie as the truck chassis chattered endlessly as well.

The driver ran out of the courtyard. Except for a single building, all the windows and doors in every building were clanging and banging in an endless clatter. The driver raced quickly to the main gate, and the main gate was also shaking with a clanging and banging sound. Though it was not locked, the driver was unable to open the main gate no matter how much strength he used. He was so scared he did not know what to do.

The driver looked all around. The sound of the clanging and banging buildings grew louder. Anxiously trying to think of some implement he could use to break open the main gate, he broke through a small door below the main gate and entered a room. This was a kitchen in which a young maiden was sitting with her back to the door, her elbows resting on her knees, and her head down. One could see from behind that she was a willowy young maiden. The driver seemed riveted to the spot, not even daring to breathe loudly. After a little while, the young maiden slowly turned around, her beauty startling the driver.

"Please sit down," the maiden said softly to the driver, pointing at a bench beside her.

"Can this be the maiden that is to marry Slant-Eye?" the driver thought.

"I knew you would come... Right now you cannot get out. Please sit down," the maiden said smilingly.

The driver was taken aback.

"How did you know?"

The maiden's beautiful, sorrow-laden eyes seemed to laugh.

"In the small hours today, I saw your star."

"That room was so unimaginable. Who were they?" said the young driver pointing to the room he had just come from.

"My mother and my older brother, and the slant-eye you brought who is going to marry me." The maiden's face clouded over.

"Why do your mother and your older brother have no self-respect, regarding themselves so mean, low, and good-for-nothing? Why were they fighting? Why were they as savage as wild men? What was happening to the water barrel, the spoons, and bowls..."

"Look, that too!" The maiden pointed at the top of the door that the young driver had entered.

The driver turned around to look at the top of the door. Ox heads hanging from wooden pegs were fighting with each other. The driver was about to lose his mind. Quizzically he looked at the young maiden's baleful eyes.

"Only you and I can unravel the secret of this unimaginable scene. This is a catastrophe. It is a catastrophe that the demons have visited on us. Only the two of us together can eradicate this catastrophe. I alone am powerless." As she spoke, the young maiden cast a probing glance at the driver.

Suddenly a cold light darted from the eyes of the girl, and her body began to tremble. The driver turned to look. In the middle of the courtyard, an old man was prancing up and down like a donkey and mumbling endlessly. His long hair swept the ground. He fingered beads in his hand, quietly mumbling incomprehensible words, chanting a litany while hissing with his tongue in all directions.

The young maiden's hateful gaze was riveted on the old man, and her body trembled ceaselessly as though with malaria.

The old man moved around the middle of the courtyard, looking at the maiden with a ferocious gaze. He walked into the room opposite, closing the door with a bang, and locking it from the inside. The driver remembered that

when all the buildings were shaking with a clanging sound, that building alone did not move at all.

"Who is that?" the driver asked.

"He is a sorcerer who is in league with the spirits and demons. He is a demon!" the maiden said angrily.

"Does this courtyard belong to him?"

"No. It is ours. It is our own."

"Was he the culprit I just saw in the unimaginable scene?"

"Yes... not only that... what you will hear and see..."

The maiden lowered her head.

"Can't you drive away this sorcerer who consorts with spirits and demons?"

The maiden smiled wryly.

"There is not a man in this courtyard now who can go up against this sorcerer."

The driver was even more startled.

"This old man. This lifeless old man!" What has become of the men in this courtyard? Why?"

The maiden shook her head and said,

"He transfixed all the men in the courtyard who were his equals in strength, using concentration techniques, and drove them from the courtyard. No one knows where they are locked up. They cannot return now. My father is one of them. From the day that my father disappeared, my family became the way that you just witnessed."

Warm tears flowed from the maiden's eyes, and she wept brokenheartedly for a while. Then with a sigh of sadness, she continued.

"Not long ago, a businessman who lives in the house to the left said, 'My back is burning up and my mouth aches. I'm going out for some air and I'll be right back.' Then he left and there has been no word of him to this day. No one knows where he went.

"From the day he left, his entire family came down with the 'no-feeling illness.' Their mouths can taste nothing; their noses can smell nothing; and they are even unable to feel the scorching heat of the burning sun or the extreme cold of the dead of winter. The children put hot coals into their mouths that scorch their mouths, yet they do not feel it.

"Their parents do not cook for the children, because the pitiful wife does not feel hungry. When the pitiful children see other children eating food, nang [bread], or fruit, they imitate them. They eat anything available even if it is a piece of iron or a stone, dung, or a clod of earth. Whatever they find, they put into their mouths,

and sometimes, they even put coals into their mouths and swallow bright red flames...

"Shortly afterward, a handicrafter who lives in the house to the right said, 'I hate my wife,' and left home. From that day on, everyone in this family contracted the 'rat disease'..."

"What? Rat disease?"

"Yes... What did you just see in the walls of the courtyard?"

The young lad knitted his eyebrows in thought:

"I saw countless holes..."

"This is what happened. Those countless holes were dug by that family. They dig holes from morning till night. Whatever they encounter, they dig holes into it, whether it is a wall, the corner of a wall, the base of a wall, the top of a kitchen hearth, a bread oven, a sewage pond, a basket, a burlap bag, a carrying bag, a chest, a mattress, or clothing. The whole wall has been dug out so much that it is about to collapse..."

"But whose pile of books is that over there? Why is it being treated like refuse?"

The driver pointed to a pile of books in a corner of the courtyard where five or six burlap bags of books were covered with mildew.

The maiden bit her lips hard, and her eyes filled with boundless tears of sadness.

"A scholar and inventor lives in that house. He is a very learned man. Everything that happened from the time the earth was formed until the present time and what will happen in the future, as well as things we do not know about the stars, he knows like the fingers on his hand. Knowledge imbues him with great prestige. When the village government has problems, it discusses them with him and asked his advice. He also suddenly contracted a frightening illness. This illness occurred from the time that people awoke until everyone went to sleep. Only during the period after everyone had gone to sleep did this illness get better slowly. Finally he went mad, abandoning his family and his books to become a vagrant. To date no word has been heard of him. Since the time he left home, his wife and children have suffered from the 'inability-to-see illness.'"

"Have they all gone blind?"

"No. Their eyes are bright, and when they walk they do not bump into walls or fall into ditches. It's just that they have lost the ability to distinguish people. The mother does not recognize her children; the children do not recognize their mother; and brothers and sisters do not recognize each other. They cannot imagine, and they do not know who they are, whose offspring they are, and whose descendants they are, nor do they know their own parents. Thus, they have no concept at all of kinship, of

the love among children of the same family, or a mother's feelings. They do not know of people who have gone before them, and naturally they do not differentiate between today and tomorrow, nor can they think about such things. Therefore, this family lives together like strangers with no relationship to each other."

"In that case, how can they live together in the same house?" the driver asked with astonishment.

"They don't use intelligent thought, recollection, remembrance, mother-and-child feeling, or flesh-and-blood feeling, these most beautiful feelings of kinship. Instead they are like a group of wild animals who go by their needs for natural existence and who live in a material dependency relationship. If they were divided up and placed among strangers, they would live the same way."

"In that case, among them..."

The maiden immediately cut short the young driver's words:

"Yes, yes... Since they do not have the flesh and blood feelings that I just talked about, even though they live together in a family, they are not at all on good terms with each other. They do not know the meaning of loving care and forbearance, but look upon each other with hostility. Sometimes the children beat their mother within an inch of her life, and sometimes the mother lets the children go hungry all day long. The children are crazed and greedy like wolf cubs who have lost their mother. I'm afraid that if this goes on, they will leave no descendants in this world..."

The maiden cried sorrowfully, her eyes brimming with tears. To get control of herself, after sitting on the floor for a time, she pointed to some books and said,

"No one will read or cherish or treasure these books anymore. They'll be trampled underfoot. People will bundle them up and use them to wipe their behinds, start fires, or roll into cigarettes."

In the distance a river was visible. Under the waning light of evening, the surface of the stream glistened with a blood-red radiance, and the shore of the river was a jade-green oasis. Here and there in this oasis the smoke of cooking fires curled skyward.

The driver drove the truck faster.

"Did your father also..." the driver asked cautiously.

The maiden shook her head.

"My father suddenly came down with wasting-away disease. Within a week he wasted away to skin and bones, then one night he suddenly disappeared..."

The maiden's voice became lower, but this time she did not burst into tears of sadness but sat there in control of herself. The driver was pained and sad for this beautiful young girl, and he admired her for not becoming dejected or despairing, and for not losing her reason

because of her adverse circumstances, but rather maintaining a strong will and stamina.

"At that time, I could not even believe my own eyes and ears. Today I seemed to have entered an unreal world.... Do you mean that so many catastrophes were created by that terrible old man? Do you mean that no one can subjugate him? I feel shocked. How about you? How about me? How about us? You must tell me the origin of this secret, ok?..."

The driver was very agitated. The maiden was happily running her tongue across her fresh, flowerlike red lips and smiling, her face shining with a sunlike radiance.

"Don't hurry... I'll tell you everything. What you just said made me extremely happy. I have been waiting all along for a brave and strong man like you. Now you know everything, but"—the maiden looked at the young lad and smiled softly—"There is a condition. Only if you will agree to this condition will I tell you the origin of this secret..."

The young driver said quickly:

"What condition? All right. Say it. Even if you want my life, I'll give it to you!"

The young maiden looked at the driver for a long time with deep feeling, and then slowly said,

"There is no need for you to give your life to me. You should give it to the unfortunate pitiful people. A folk saying says, 'It is better to be a child of the people than to be a child of one's father.' At that time..."

The maiden's face flushed all of a sudden, and she halted, looking shyly downward. As though having understood something from the maiden's words, the driver stuck out his chest and took a deep breath.

"My condition is," the maiden said, slowly raising her head, "once you set out on this road, you positively cannot turn back. If you turn back in midcourse, dreading hardships, you will become a criminal before Allah, before the people, and before the souls of your ancestors, and you will disappoint my confidence in you. If you persevere to the end and make sacrifices, we will be able to save these unfortunates from the clutches of the demons. The book I am holding in my hand will tell you what to do. You must do meticulously what I say..."

The maiden stared at him with limpid eyes.

"I will put my heart and soul into realizing everything you say. No matter what happens, I positively will not give up midway. This I pledge to you with my manhood!" the young lad said without further thought.

The maiden's expression became solemn:

"Young lad. Repeat after me—"a tiger does not backtrack, and a real man does not go back on his word."

Firmly and solemnly, the driver repeated:

"A tiger does not backtrack, and a real man does not go back on his word."

A look of happiness and confidence appeared on the maiden's face. She stood up and went over to the young lad.

"You came here, and now I have told you the secret of this dissolute courtyard in order to rescue the innocent people from the torture and humiliation of this dissolution..."

The driver went over to the maiden with large strides, and the maiden took the young lad's hand, leading him like a small child, and opened a low and narrow door into a room. Since this room had not been used for a long time, the ceiling was covered with spider webs, and dust covered everything. The maiden had the young lad stop at the threshold while she went to a window in a corner of the small room and took down a very large volume with leather binding. The young lad approached the girl. The maiden carefully wiped the dust from the leather and opened the book. The pages had yellowed.

The young lad did not understand at all. He stared first at the book and then at the girl.

"This book was written very long ago. It was written by intelligent and wise ancestors. Today is the time to open this book. In a letter bequeathing this book, my father said, 'On a Friday morning, a young man from a distant place will grace this house. The young lad will have a broad forehead, sparkling eyes, an open and aboveboard character, intelligence, and wit. You must have confidence in that young man. You must openly reveal to him the secret methods found in this book, and accept his help!' Last night I cast a horoscope and found that the time has come. Your star is moving in this direction. I was so happy I did not close my eyes all night. Today is Friday, and you graced our home early in the morning. As soon as I saw you, your forehead showed the unswerving determination of a real man, and your eyes sparkled with a radiance of intelligence and wisdom. I believe that you are the loyal warrior for whom we have been waiting." The young woman carefully opened the book and began to read softly in a difficult-to-understand language. Then she knitted her eyebrows and thought for a while, then suddenly looked at the young lad and began to read in a loud voice...

The truck was speeding over the bumpy road in the countryside, raising a cloud of dust. The truck jounced terribly. With all the jouncing, hanging on to the steering wheel was very difficult. But the driver tramped down hard on the gas pedal to open the throttle as far as possible. Beads of sweat stood out on his forehead, the tip of his nose, his curly hair, and his sparse and short whiskers. He set his gaze on a familiar marker ahead, and then sat firmly like an eagle, his hands clutching the steering wheel.

The truck went around a narrow curve, and ahead appeared a dense grove of olive trees. The fully ripe red

olives shone with a rosy radiance in the waning light, and the olive branches bowed under the weight of cluster after cluster of large and dense olives as though about to break. All around was the intoxicating fragrance of the olives. The young lad stopped the truck at the olive grove and hurriedly sprang from the cabin.

"Walk to the left where three very large olive trees grow."

The young lad went into the dense olive grove to find these olive trees.

"The magpies call out in joy for you."

The olive tree branches scraped the young lad's face and hands, which bled. Suddenly, a magpie began to call from heaven knows where, and the young lad took the place from which the magpie called to be his destination, walking in that direction. Finally he came to a tiny clearing. On one side of the clearing lay the ruins of an ancient castle with very high walls. The young lad walked to the middle of the clearing to look carefully at the castle.

"The 41st house from the rear flank of the castle..."

The young lad used the sleeve of his work clothes to wipe away the sweat that flowed like rain, and went into the ruins through a broken doorway.

At twilight on the following day, the young lad's truck drove up to the young maiden's courtyard and stopped. On the bank of a ditch lined with straight white poplars, the horoscope-casting young maiden anxiously watched in the direction from which the young lad would come. When the truck stopped, the young maiden walked out of the poplar thicket to the front of the truck. The young lad leaped out of the driver's cabin.

"You came at just the right time. Welcome." The maiden smiled softly.

"Thank you... I knew you were waiting for me."

"Did you bring it?"

"I brought it."

The young lad took a white cloth bag from inside the driver's cabin, and though the bag bulged, it was very light.

"Is it all there?" the young maiden asked anxiously, taking the bag from the young lad.

"Yes. It's all there."

The young maiden opened the bag and put her hand inside, taking out a white felt hat. Then she took out a baton that looked like a rolling pin and a nicely folded pretty native cloth print. The maiden smiled with satisfaction.

"Thank you. It's extremely good. Now our undertaking begins," the young maiden laughed, looking at the young

lad. "Come here. Now I'll tell you the way this talisman is used. Just do as I say and it will work."

"These three family heirlooms lay buried in the ruins for nearly 1,000 years. They possess magical powers enabling one to reach any goal. Should these heirlooms be used for any unjust or unrighteous purpose, or should they be used by any unscrupulous person harboring evil intentions, they will immediately lose their magical powers, and the malefactor will be mercilessly punished. The book predicts that these heirlooms have been bequeathed for the doing of good works on this auspicious day in this year in this century, and the ones to use them are people of the younger generation like you and me who are clean in body, of illustrious character, are faithful and have a sense of shame, are virtuous, and have ideals. In our hands, this bequest can be used for righteousness and truth. Today we revere the spirit of our predecessors from whom we derive the power to punish the sinister and ruthless scoundrels who cruelly injure the innocent, rescue the four hapless people who have been driven away, eradicate the catastrophe that has befallen their children, and allow them to be reunited with their families.

Pointing at the felt hat, the young maiden said to the young lad:

"This is Saint Suleyman's hat. It works this way. If the person who wears it is clean in body, pure in mind, and has a just and lofty goal, he will become invisible at once. No one will be able to see him, yet he will be able to see everything. He can leisurely and freely go through tightly closed doors and windows into any house without detection. He can gain most intimate knowledge of the actions of all sorts of people with hidden intent, and double dealers..."

Pointing the baton and the cloth print in her hand, the young maiden said to the young lad,

"I will tell you the mystery of these two heirlooms three days hence. Because you have no need of them for the time being, I will keep them here with me."

The young maiden said in a loud voice to the driver who was staring blankly at her,

"You go into that house, take a bath, and get dressed."

The young lad looked at the house at which the young maiden pointed. This was the house in which the young lad and the young maiden had met for the first time.

"Everything that you need is in readiness for you there. You can take a bath without hurrying or being under pressure. Then, put on this hat, and we will see its magical powers here. By then, it will be the time when people sleep. At that time, we will begin work."

The young lad went into the house that the young maiden indicated while the maiden stood watch outside the door.

A full moon was shining like a golden disk. In the eyes of the young girl, the countless stars that glistened in the night sky were such a beautiful and magnificent sight. A gentle evening breeze caressed the young maiden's agitated face. From a distance came the sound of the beating of the watchman, announcing the arrival of the night hour. "People will soon go to bed... Allah, bless and protect our undertakings that they may succeed..." the maiden said quietly to herself.

After a while, the door that the young lad had entered sounded lightly, and the driver walked out, his face glistening in the moonlight, relaxation and liveliness replacing the fatigue of his journey.

"Here. Put on the hat," the maiden said solemnly. The young lad took the felt hat from the maiden's hand and put it on his head, immediately becoming invisible to the maiden.

"Can you see me?" the maiden asked softly.

"I can see your beautiful face, the clear and bright moon in the sky, and the glistening stars. Everything that can be seen ordinarily, I can now see more clearly. You can't see me?"

This was the young lad's voice, which trembled with excitement.

"No. I cannot see you. Thank Allah. This is wonderful. Can you see the house? Can you see the room of that hoodlum Sufi, that sorcerer who works the acts of spirits and devils?"

"I can see it."

"If you have in mind the idea that 'I want to enter that room,' you will be able to appear in that room at once. Wait until after the sorcerer has gone to sleep, and then think, 'I am going out.' At that time, you will immediately appear at the place where you want to appear. The time when the sorcerer sleeps is when daylight is dawning on the horizon. You must try to remember everything you see and hear in that room to tell me in detail. Then we can discuss what is to be done. Do you understand?"

"I understand."

"Then go. I wish you success."

"All right. I am going. See you tomorrow."

Then, everything quieted down. The soundly sleeping village seemed solemn and still.

The young driver appeared in a house whose roof was blackened with smoke. It was narrow, small, and seemed crowded. This was the house of the sorcerer who consorted with spirits and demons. The doors and windows of the house were tightly locked; not so much as a crack was left through which the wind could enter. The young lad smelled a stench that made him nearly vomit. The

young lad pursed his lips, covered his mouth and nose with his hand, and widened his eyes to scan the entire room.

On one side of the room stood a kang on which lay a dirty and tattered comforter. In the middle of the kang stood a crooked pole, atop which hung a lighted oil lamp that swayed back and forth endlessly. Except for broken jars and bowls and a wok on top of the hearth, nothing decent was to be seen.

On the kang a man bent over and leaned against the tattered comforter. This was the sorcerer he had seen that day in the courtyard. He was very old, so old he could be no older. His ashen hair hung down to his shoulders, and he wore an old and tattered leather hat that almost covered his eyebrows. His pair of large eyes radiated a fierceness that was not in keeping with his age. Seeing those eyes, anyone might tremble with fear. His unkempt, gray, and dirty beard dragged on his chest, and his body was so feeble and decrepit that he seemed unable to stand up straight. At this time he was rolling prayer beads in his reed-like, long, and slender fingers, sitting there immersed in deep thought, and gazing at some place on the kang.

The sorcerer raised his head in alarm, as though sensing something. The young lad was so frightened he had his heart in his mouth. However, the sorcerer once again diverted his gaze from the young lad's body and looked behind himself. There along the wall was a green glow as though a green flame were burning.

The sorcerer's mechanical voice called out the names of something:

"Wowuli Khan, Jimilaike, Ziweidaiké, Kakeer Khan, Cuboda, Semusemukeya, Xiahexiaheqinaer..." Suddenly nine cats appeared from behind the sorcerer, stretched themselves lazily, meowed, stroked their whiskers, and walked forward one after the other. These cats were big and fat. To the young lad they seemed not to be cats but fat lambs that could be slaughtered and eaten. The green glow he had just seen were points of light that flashed from these cats' eyes. Seeing these cats, the young lad began to tremble violently.

"Has the time come?" the sorcerer said in a rasping voice to the cats sitting in a row before him. "The time has come for us to use extraordinary skill to make sicker the scholar that we transfixed through concentration in the desert, and the person who is fond of science, to lengthen the period of time that we have hexed them, to worsen the illness of their offspring, and to make their madness extreme. All right. Each of you take your own position to implore the souls of the deceased and to beg the pardon of Allah to help me along. Hop to it, my darling cats..."

All the cats stood up, lazily opened their mouths, and took up positions in the four corners, at the opposite wall, on both sides of the door, and at a closet, the bright gaze of their eyes that seemed like shards of a green bottle cast in the direction of the sorcerer. The sorcerer

lowered his head to his chest, and sat with closed eyes, softly saying something unintelligible. Slowly his breathing became rapid, and his voice also grew louder:

Oh, all the creatures in the world have life.
Those of you in a deep sleep must be alert, and those
of you who are numb must wake up.
Oh Niyaz, Asya, and Almas.
Do not say that I did not listen or that I did not hear
clearly:
I am the progenitor of saints for 1,500 years.
I am the great master and the elite of rebels.
I am the powerful army of Allah, a real man among
fine men,
Which means I am a hero among demons...
I am Azreettin Ali, unrivaled in bravery.

Suddenly the sorcerer stood up from the seat and held
high his long, withered, tree branch-like arms, and,
gazing at the ceiling, called out:

"Oh, omnipotent Allah. Bestow mercy upon me. Bestow
mercy on me who now longs to become your reverent,
pious servant. Let your servant have staunch faith like
Mierkamali, and Xieyihejiabi, as rich in wisdom and
understanding as Xieyihulialaimu and Xieyihexiemixid-
ing, and the boundless supernatural power of Master
Naqeshbandi to become an idol before which the masses
pay homage. Let my head be clear; let me be well versed
in the magical arts; let my voice shake the universe; let
my anger scorch like fire; let my supernatural powers and
ingenuity be beyond the understanding of men; let me
vanquish calamity and avoid hardship, turn ill luck into
good luck; let my wicked thoughts be filled with power;
and let me forever be victorious. Amen..."

The sorcerer rubbed his face with his palm, and suddenly
pounded his fist against his hairy bare chest, shouted
wildly, and prayed to the soul of the great master:

Great master, make me strong for I lack strength.
I am weary and worn. Show me the way.
Do not forsake me. I am the disciple of Naqesh-
bandi.
Watch over me that I may be encouraged and feel
elated.

The sorcerer knelt on the ground and closed his eyes, his
body weaving back and forth, and he began to sob:

Noble master, look after and have mercy on me.
I am a rebel whom all the common people want to
keep their eye on.
All day long I cudgel my brains for ways to stir
people to battle.
I am a demon whom people avoid and despise.
I am Sufi and a sorcerer. My heart is filled with evil;
My hair and beard have become like a horse's tail
because of the hardships of my endeavors.
My fingernails are so old they look like a horse's
hooves.
Because everyone is fighting on a bloody battlefield,
The great wall of harmony and unity has been

broken and lies in ruins.

See, people bite each other like mad dogs;
They regard each other with enmity without distinc-
tion.

Everyone drives others away;

One cannot tell who is being chased and who is
doing the chasing.

Envy blinds their eyes,

Making it difficult to distinguish friends from ene-
mies.

They may act friendly with each other and embrace,
But behind each other's backs, they slander each
other and regard each other with enmity.

They benightedly sow discord between each other,
using devious methods to kill. Everyone struggles
and suffers amidst invisible frictions...

Suddenly the sorcerer stood up, shook his hands and
shouted out:

"The venomous viper has eaten the sparrow in the cage;
the hedgehog has eaten the poisonous viper; the fox has
eaten the hedgehog; the hunter has killed the fox; and
finally the hunter is thrown from his horse and dashed to
death on the ground..."

The sorcerer suddenly laughed loudly, the sound of his
laughter as fearful as the hoot of an owl. Suddenly, he
began to cry again:

Allah, please accept my entreaties.

You are the sovereign and the creator who decides
all things.

I am profoundly aware of my own monstrous
crimes,

Which I committed against my own will. Please
forgive me.

The sorcerer stopped crying and spoke in a low voice
while looking at the ceiling. Suddenly he shouted in a
loud voice:

Oh, spirits in all quarters, hark.

Hear my cries and hurry here.

I want to exercise supernatural powers.

Come quickly. You must come at once to serve me.

The sorcerer unbuttoned his worn-out gown, took off his
hat and threw it on the tattered comforter. Then he
extended his hand and circled the column endlessly.

"Come, come, spirits from all quarters, female celestials
and young males. Come arrayed spirits. Travel by the
winged steed with the golden saddle and the silver saddle
blanket. Guards holding magic swords on high and
riding soaring steeds, come; wild animal-like warriors,
come. The voice that is calling you is not my voice. It is
the voice of Grand Master Naqeshbandi. It is not I
summoning you; it is a summons from Shaykh Hosayin
Bakhdīs, Hoja Kamali, Shaykhollam, Shaykhollah
Shamsheddin Kamali, Hoja Akpak... You must trans-
form yourselves into passionate young men and women
and come, and rush from that place of sparkling rocks

and flowing gold; come from the top of the nine-level den of demons, and come from the throne room of the devil king. You must become as sweet-talking as Hoja Akpak, as falsely gentle as Jeffer Sadik, with rosy faces, bright eyes, and beautiful teeth, and heads of curly hair; and come. I am the Big Dipper; you must surround me like the myriad stars holding the moon...

"I have already employed my superior supernatural powers to transfix and consign to the bleak and desolate desert the outstanding persons living in the courtyard who are eloquent and write well, and those who possess copious energy and abundant literary and artistic talent. I have also destroyed the self-respect and the will of their offspring. I want to make these offspring hate each other, transforming the young into good-for-nothings who live lives of eating, drinking, whoring, and gambling. I also want to destroy the fig leaf of a sense of shame and modesty in the girls' hearts to turn them into dissolute and promiscuous women. I have also sown the seeds of envy among the men of vision to make them give up their insistent pursuits and become time-wasting mediocrities. Now I am old, and I am weary and worn. The bird of life will soon fly out of this cage. Demons, you must give me support, infuse vitality into my failing life, and provide encouragement for my supernatural powers. Come, demons, roar like the sea. Come..."

The sorcerer was weary and worn. His entire body broke out in a cold sweat, and he only called out "Ah," like a flame issuing from his mouth. His straggly hair covered his face, and the dust that he raised when jumping around covered the entire room. Nothing was clearly visible. Suddenly the sorcerer halted. Looking at the ceiling, his eyes showed an expression of alarm. As though angry with someone, he shouted:

Demons. Listen. I am warning you!
If you do not come again, I will drive straight on to your lair.
I can rain calamity down on your heads.
I can become an angry sword that cannot be turned.
This fast knife of a curse can dispatch your lives.
I must become sovereign of the kingdom of the demons. Don't belittle me!
Remember that my patience is at an end; whether you come or not is up to you.
I can turn into a cruel wind and a torrential rain that wipes out your kingdom!

Suddenly the sorcerer fell over with a thump, sprawled on the floor, froth bubbling out of his mouth, his eyes rolled back, and his hands and feet as rigid as sticks. He shook as though shocked repeatedly with electricity, and the froth that issued from the corners of his mouth dirtied his beard and rolled off of it. His rib cage, which looked as though made of reeds, rose and fell quickly.

The sorcerer lay like this for a period, slowly regaining consciousness, and mumbling something to himself. Then he suddenly jumped up, and, gesticulating at the ceiling, he shouted:

"This... this... that... that... is a celestial maiden, and I hear the sound of the princess. I also see the shapes of demons and celestial females, and the smiling likenesses of the dead. This... this... that... that..."

The sorcerer's sinister and frightening face wore a treacherous smile as he agitatedly rubbed one hand with the other. The pitiful look in his eyes and his determined vixen-like expression was replaced by arrogance and wild joy. His gaze swept the four corners of the room and all around it several times. Suddenly, he jumped down from the kang, removed the lid from a jar behind the door and put his hand inside to take out some jumping thing that he threw on the kang. The young lad looked at it carefully. It was only a frog lying on its back. Although alive, the frog's four legs were quivering ceaselessly. The sorcerer knelt facing the frog, closed both eyes tightly, and recited an incantation.

"Come. Come all of you. My magic has begun. Come out of your dilapidated houses at once, and from the single trees at once. Come quickly to my body, and come quickly out of my joints to support my prayers and smash this arrogant world, to cause hellish pain to the erudite scholars, making their illnesses flare up..."

Then the sorcerer said something unintelligible. He closed his eyes tightly, swayed from side to side, and softly mumbled some difficult-to-understand words.

He remained reciting like this for a long time. After a while, he suddenly opened his eyes and riveted his gaze on the frog lying opposite. Now the frog's belly was swollen, and its legs no longer moved. It was like a round balloon that seemed on the point of bursting with a bang. The pitiful frog was about to die. Looking at the frog, the sorcerer laughed viciously.

"See... My prayers have worked. This frog's belly has swollen up. Now the bellies of those I drove into the desert are also swelling up and are about to split open. They are crying and screaming with unbearable pain in the desert. Now I want to make their offspring sick... Oh, Master Naqeshbandi, help me. Let my supernatural powers reach their peak..."

The sorcerer closed his eyes again, swayed from side to side, and mumbled in a low voice.

Slowly day began to dawn on the horizon. The young lad firmly recorded in his mind all that he had seen, and began to think about leaving this house. Now the sorcerer was sitting there dozing as he recited incantations, finally falling into a deep sleep and snoring like thunder. This indicated that his activity for the night was finished. Thereupon, the young lad appeared before the pretty maiden who was anxiously awaiting him. He told her in

detail everything that he had seen, and then he lay down on the bed that the maiden had made ready for him and slept.

The young lad slept until nightfall, the maiden looking in on him from time to time. In the middle of the night, the young lad again donned the hat of Suleyman and appeared in the room of the sorcerer Hayier.

Sorcerer Hayier's criminal processes commenced with the rhythm of the previous day. First he called out the lamb-like flock of cats, which he had take up their guard posts. Then he sought help from the ghost of the great master, and finally he called upon the demons to help him along. Next, Hayier gazed at the rag doll hanging in front of him and recited an incantation.

"Zubeyda...semusemukeya." After chanting an incantation toward the rag doll for as long as it takes to eat a meal, the sorcerer nastily called a black cat and a calico cat to sit before him and to look at him in a servile way.

"Take this rag doll to the house of the craftsman to the right and put it behind the grain chest. This craftsman fiercely detests the wife that he had formerly liked and had abandoned his home to wander in the desert. The incantation that I made to the rag doll will make his beautiful wife appear before him in the form of the ugly *kaheger* demon. Whenever the craftsman thinks about his family and wants to return home, his wife will appear before him like a seven-headed monster, and his children like piglets. Thus, he will go farther away from home. The wife and children who have lost the man of the house are living like wild animals because of the sickness I had them contract... See. I like this. If the craftsman returns, my hard work will be in vain, and they will recover. Every day I place such a rag doll in his house to prevent his return home. My cats. Come quickly to take the rag doll to his house. They are now in a deep sleep. Now the call of the faithful to worship is falling on their ears, and they cannot awaken. The power of this illness causes them to lie prone for three days once they go to sleep. They lie sleeping for three days without being able to awaken. Fine. You act. My dirty ears... ha... ha..."

The sorcerer laughed madly.

The day began to break, so the young driver left the sorcerer's house and appeared in the house from which he came. There he slept until twilight. At the appointed time, he once again made his way into the sorcerer's ramshackle room.

On this evening, sorcerer Hayier placed a fur hat in front of himself and stuck a quilting needle into it while reciting incantations. From sorcerer Hayier's explanation to the cats, the young driver learned that the young maiden's father had contracted the wasting-away disease as a result of this sorcerer's sticking the needle into this hat and reciting incantations, and that he was transfixed on the barren and desolate desert. The maiden's mother and older brother had also been stricken with a strange and terrible disease as a result of the sorcerer's sinister

plot. He learned that because of the maiden's extensive knowledge and her possession of the treasured book passed down by her ancestors, and her always having a book in her hand to study day and night, the sorcerer's sinister plot could not take effect on the maiden's body.

On the evening of the third day, sorcerer Hayier placed 11 stones, each as large as a dried apricot, on the ground before himself, and arranged them in the shape of a heart. Then he recited an incantation to the stones, constantly recited curses, and finally called in the group of cats:

"See this," the sorcerer said pointing at the arranged stones. "This is the heart of a person. I have recited 74 different curses against this heart. Take these stones to the bottom of the chimney that goes to the kitchen hearth in the house to the left. Dig out a place in front of where the pots and pans are kept in front of the hearth, bury these stones there, and return. Every time that the people in that house light a fire in the hearth, these stones will get red from the heat, and the back of the man of the house who has been transfixed in the desert will become inflamed and begin to itch. The hotter the fire gets, the more it will seem that his shoulder blade is stuck fast to a red-hot shovel. He will cry out in pain, and run around in the desert bellowing like an ox about to be slaughtered. If he thinks of returning home, and takes one step in the direction of home, the pain will increase 10-fold, and if he takes two steps, it will increase 40-fold. Then he will run in the direction opposite from home, leaving it farther and farther behind.

"Come. You cunning pack of cats, who startle the foxes, come carry these stones away in response to my orders. Illuminate my dark heart; infuse my dying soul with joy and a little laughter," the sorcerer said stroking the back of each cat.

The sorcerer's voice became gravelly. His throat seemed clogged, but his owl-like eyes that seemed unaccustomed to sleep glinted with a savage light. The cats stood up at once, each of them disappearing from the room with a stone. The driver counted 11 cats. Once these cats had left, the sorcerer stretched and laughed loudly. Hearing his laughter, the young driver's heart shriveled, and his whole body became icy cold as though pierced with a thorn. He left the sorcerer's house.

In the house, the young maiden and the young lad looked at each other. The young maiden's prettily arched eyebrows extended to the sides of her forehead, and her thin lips were closed tightly. The young lad's gaze never left the maiden, and he looked at her quizzically. What was the young maiden thinking?

The young maiden said firmly:

"The first step is to turn sorcerer Hayier's sinister plot back on himself, thereby rescuing the unfortunates in the misery of a living hell. The second step is to drive this dastardly sorcerer out of the courtyard and never let him return."

The maiden took the book from the built-in cabinet, opened it, and said:

"If we can turn the sorcerer's sinister plot back on himself, and bring back the people who are transfixed in the desert to be united with their families, their children will immediately recover. They will live in harmony with their own fathers. So long as they do not forget the teaching of their ancestors, the sorcerer's sinister plot and tricks will never be able to take effect on their bodies. We must unite them and make them understand how dangerous it is to forget their own ancestors."

In this boundlessly beneficent endeavor, I am your close assistant and friend," the young lad stood up and said solemnly.

The maiden cast a warm glance at the young lad and smilingly nodded her head.

"When do we begin?" the young lad asked anxiously.

"We'll begin now... but, I should tell you the method of using the two weapons. In the middle of the night when all is quiet..."

When the young lad entered the house of the sorcerer Hayier, the sorcerer was entreating the demons as was his daily habit. He stood in the center of the kang, looking at the ceiling frequently and calling out, tearing at his hair, uttering loud cries and sobs, and issuing loud peals of frightening laughter...

The young lad made an effort to control the anxiety he felt and wait until the sorcerer was worn and weary.

Facing the ceiling, the sorcerer was mumbling and circling the room, his footsteps becoming heavier and heavier, and, swaying as he went, his whole body dripped with sweat.

The young lad took the baton from his sleeve, the same baton that he had brought back from the ruins on the orders of the young girl. Looking at the baton, the young lad commanded in a firm tone of voice:

"Strike, my tokmak (baton)!"

No sooner were the words out of the young lad's mouth than the baton began to bound up and down in his hand. The young lad placed it on the floor in an erect position, and the baton began to dance up and down with a thump as though it contained an actuator. It flew forward and backward around the ceiling, to the left and to the right. In the twinkling of an eye, the baton flew several circles.

After the baton completed between 40 and 50 such circles on the ceiling, the sorcerer, who was circling around in the room, suddenly stopped, riveted his gaze on the ceiling, his mouth agape, and began to scream uncontrollably.

"Ai. Demons, don't go. Ai, celestial boys and celestial maidens don't run away. We have not yet begun our work. You cannot run away without helping me. What

catastrophe have you encountered that you run away without caring about anything? Who put the spell on you? Whose mysterious spell has made you panic-stricken like this? Are you angry with me? Were my entreaties not sufficiently moving? No, no! I used the same complete fervor and power that I use every day, and I used my entire love to call you. Do not be so ungrateful, and do not act so pathetic and fearful. You should fear the wrath of the demon king. Didn't he turn you over to me? I have you in my grip; I control your fate... Come to my side... or else, I will not spare you!"

The sorcerer took a hank of hair from his bosom. Looking at the ceiling, he blew on it without stopping and shouted madly:

"See. This is your hair that I cut off. With your hair here with me, you can go nowhere. Only if you help me complete this work will I return your hair to you... without the hair, how will your king's angry eyes deal with you, and won't he punish you? Demons. Come back. I refuse to let you escape! What catastrophe is this? Have demons assembled after numerous difficulties and myriad risks fled helter-skelter, not one remaining? Where has their power gone? Where has their majesty fled? Where has their impetus gone? Where has their strength gone? Oh... faithless things! Am I left all alone now? Who will help me? Who will come to support me?"

Crying, the sorcerer gazed at the ceiling, ceaselessly beating his chest. Then suddenly he saw the baton flying around in the air and he screamed madly:

"What is this that I see myself? Is it a rolling pin? Is it a baton? Ai. Now I know! It is this damned baton that has driven away my demons! What is going on? Ah, scoundrel! Whose spell are you? Who sent you here? For what reason have you invaded my house, destroyed my endeavors, and tyrannized my demons? Scoundrel! Get out now! Let Niyaz, or Asya, or Almas, or Master Naqeshbandi expose this damned person who is fooling around with spells, and put him to death. You must help and support me, and pray that I be given power..."

The baton flying around in the air aimed at the sorcerer's head and plunged downward, hitting him fiercely. The sorcerer, unable to bear the pain, cried out with all his might:

"Aiya, my head!"

The baton struck the sorcerer's head with a thud, and plunged down to strike the sorcerer's face with a slap. To protect his head and face, the sorcerer raised both hands. The baton continued to strike the sorcerer's hands, his neck and his elbows. Unable to stand the pain, the sorcerer rushed to a corner. The baton pursued him relentlessly. Shouting "ow, ow," without stopping, the sorcerer fled to another corner. In the twinkling of an eye, the sorcerer's nose turned black and blue and his face swelled. He was in a sorry state, his nose, his face, his hair, his nose, and his filthy beard completely covered with blood. The sorcerer howled loudly like a wild

animal beaten mad. He ran from one corner to another, from the kang to the floor, constantly on the run in a panic. Wherever he went the baton pursued. Finally the sorcerer collapsed in a corner, using all his strength to beg mercy from the baton circling over his head:

"I submit. Enough. Don't hit me. Spare my old life. Forgive me. I want to serve you..."

The sorcerer's voice was very weak; his whole body trembled; he breathed with difficulty; and his voice rasped.

"Halt, my baton," the young lad commanded the baton. The baton immediately descended to a corner and stood there.

"You repaid people's blood debts!" the young lad said looking at the seemingly dying sorcerer. "This is the people's punishment for your crimes! You dirtied people's clean bodies; you corrupted people's pure hearts; you made intelligent and healthy people catch filthy diseases, and you disabled them mentally. You made innocent mothers and children lose their husbands and fathers, and caused them hellish suffering! You made fathers become the enemies of their children, children become the enemies of their mothers, older brothers become the enemies of their younger brothers, descendants become the enemies of their ancestors, and made the orchards of people's lives produce poisonous fruits of arguments and fighting. 'There comes a day when people's hatred erupts, and they will punish you!' See, today I am avenging the innocent people who have suffered burning alive in the fires of hell because of your sinister plots! Allah will not spare you; the sun will also cruelly burn you! People will not spare you; the souls of the ancestors will punish you!"

"Now, I command you to abandon your plots at once. Let the fathers who have left their wives and children and who are transfixed on the desert because of your spells return. Cause the illnesses of their families to be eliminated at once! After you have completed this task, tuck your tail between your legs and get out of here! You will positively not be allowed to return here! All right. Carry out my orders!"

The sorcerer, his whole body covered with blood and lying groaning and moaning on the floor in the corner, rasped:

"Ai. Invisible person, you are the victor. You overcame me! I have committed countless crimes and deserve to come to judgment, I confess. But I cannot remove the spell I placed on them. Were I to do that, I would be cursed by my master... I cannot go anywhere from here, because my magic arts can only be worked from this courtyard. If I leave here, all my supernatural powers will lose their effectiveness. I will be unable to exercise them. Ai, invisible person. Never mind my affairs. I swear never to pit myself against you. You live using your magical arts, and I will also..."

"Bah. You scum, you!" shouted the young lad, so angry that he exploded like a bomb. "Shut up! I am not bargaining with you! I am giving you an order. Do you dare not heed? You still do not understand. You deserve to die for the evil you have done! Strike, my baton!"

The baton, which was waiting for the young lad's order, bolted upward like a spring and began to fly, plunging toward the corner in which the sorcerer lay curled. "Bang, bang." It struck the head and face of the sorcerer. Unable to bear the pain, the sorcerer forced himself to climb from the place where he lay. Like a four-legged beast, he crawled along the floor dodging here and there. After a while, the fat cats that were terrified by the baton's power surrounded the sorcerer. The sorcerer cried madly. This, together with the sad, shrill cries of the cats made it seem as though the final days of the world had arrived.

The baton's power became greater and greater, giving the sorcerer and the pack of cats no respite. The room was filled with dust. The pack of cats, who were unable to bear the pain and who seemed to realize that it was the sorcerer who put them in this predicament, scratched their master's face with their claws. Their sharp claws scratched the sorcerer face, smearing it with flesh and blood. The violent rotation and beating of the baton rocked the entire house. The cats shrieked endlessly, and the walls and ceiling vibrated.

"I surrender! I agree to your conditions. Spare my old life, invisible person. Pitiful, pitiful me..."

"Stop, my baton!" the driver commanded. The baton immediately stopped its soaring and stood upright against a wall.

"All right, then," the driver said to the sorcerer in a commanding tone, "take back your spells and order your pack of cats to bring back here all the rag dolls, stones, and needles that have been placed in other people's homes, not leaving a single one behind. Let me see their destruction with my own eyes! Then collect your things and go to the remotest desert!"

"I want to serve you, sir. I want to serve you... First let me abolish the transfixing method and then give orders to my cats. Everything will be carried out under your supervision. Invisible person, just give me a way to live is all I ask..."

The sorcerer spoke pitifully in a weak sorcerer's tone, climbed to the center of the kang, and knelt down, holding his prayer beads in outstretched hands.

When the young driver left the sorcerer's home, redness was already beginning to spread along the horizon. The pretty young maiden, who was awaiting the young lad in the room, walked over to him.

The young lad's forehead radiated the joy of victory, and his tired eyes, reddened from lack of sleep during the night, glistened with joy.

"I congratulate you, young lad possessed of a strong spirit of sacrifice. I wholeheartedly congratulate you," said the young maiden to the young lad in a gentle tone.

The young lad laughed with pride.

"I also congratulate you..."

"We have to act at once," the young maiden cut short the young lad's words.

"Right now?"

"Yes, right now... We cannot waste any time."

The young lad and the young maiden left the room hand in hand, the young maiden holding the thick book under her arm.

The driver started up the truck parked in front of the main entrance, and the maiden climbed into the cabin where she sat next to the driver as they headed toward the desert. The truck, which had sprouted wings, seemed to draw power from the young maiden possessed of such a great spirit of sacrifice and the fine desires of the young lad. It spread its wings to fly toward the bleak desert.

In the twinkling of an eye, the truck disappeared from view, leaving behind a cloud of dust. The roar of the truck shook the countryside, shattered beautiful dreams, awakened the deeply sleeping people, and brought them news of a brand-new life. People hurried from their beds.

The truck became mired in mud at times, mired in sand at times, and could not be started at times. But the young lad was possessed of inexhaustible energy, and the delicately beautiful young maiden was possessed of indomitable will. Night and day they traveled at double speed, crossed numerous streams, traversed countless sand dunes and river flats, traveling for a full nine days before finally arriving at the edge of the great desert, where they stopped the truck and jumped from the driver's cabin. The arduous journey exhausted them. Their faces, which had been glowing a week before, were now travel-stained, and they were weary and worn. Their plump faces had become noticeably thinner, and their lips were all cracked. Even so, their spirits were exuberant, and they were filled with vitality, and their whole body brimmed with the strength of youth.

They gazed at the boundless desert. This was a sea of doom in which any sign of man was rare. They had to go into the vast desert to rescue the young maiden's father and to rescue the other unfortunates who, like the young maiden's father, had been driven from their homes by the sorcerer's spell.

The young lad and the young maiden held tightly to each other's fiery hot hands they walked deep into the desert.

The desert was hellishly hot. Their bodies were soaked with sweat, and acrid sweat stung their eyes, which itched and pained. They climbed to the top of a high sand dune where they happened upon a lizard as large as

a dog, and a cobra that ran after them. At twilight, they sighted four people lying at the base of a large sand dune. They ran over. It was the people for whom they had been searching. Nothing was left of these people but skin and bones. But for the weak spark of life that still flickered in their eyes, one might suppose that they were dried corpses in the desert.

The young maiden recognized her father. Wailing loudly, she raced over to embrace her father. The young maiden's father also clutched the maiden to his breast, his hot tears streaming down. The others rose with difficulty from the place where they lay and raised their heads. They looked with astonishment and joy at the young maiden and the young lad who had suddenly appeared. After understanding what had happened, each of them shed tears of joy. Nine days earlier, their bodies had suddenly experienced a strange feeling and they were freed from their illnesses. Their thoughts and memories gradually cleared, and their minds awakened. The memories of their kin, their homes, and their children filled them with a desire to escape from this sea of doom and be united with their families. Using the final bit of strength in their bodies, they began to return home step by step. Thirst, hunger, and fatigue tormented them. When they reached the foot of the large sand dune today, they lay down, unable to go farther.

The young maiden and the young lad sat close to them and talked. Then they helped them to their feet one by one, and headed for the edge of the desert where the truck was parked. The sun was setting and the wind on the desert was very chilling. Victory and the joy of reunion encouraged and supported them, hastening their steps. Their hearts had long since flown to their hometowns and the bosom of their family.

The wail of the suona [a woodwind instrument], and the thumping sound of drums traveling afar can express all the experiences of life: the real and the surreal; hope and despair; the vigorous and the decadent; the genuine and the abnormal... so long as it is from man, and no matter that it is extremely individual. It is the history of the emotional frame of mind of a people in each period; and it is not responsible to the state of real society, because it owes a greater responsibility to the spirit of the people.

So long as we acknowledge the great boundary between life and death, and so long as we understand the simple principle that the people of this generation will die but the Chinese people will continue on, we will not employ a narrow and ignorant attitude in seeking poetry and songs. The lark or the skylark of poetry, the goose or the stork of philosophy, the wild fowl or the hawks and falcons of history, the woodpeckers or the red-crowned cranes of art... these birds that build nests in the realm of the superstructure, always continue to land in the soil of reality and always long for the sky. Freedom is their nature; flight is their skill. Thus they always employ a gaze from on high as their angle for identifying reality.

"Events unexperienced by forebears and never to be experienced by posterity" is a commonly used depiction.

At times we may suddenly feel the disappearance of history, wondering where our forefathers who lived lively lives on this piece of land and lived among us have gone. How did they disappear without trace? What did they leave behind? What can show that they existed? Cultural relics and historical sites and nothing more. If they had not left behind any written record, or no histories or poetry and song, just how sterile that would be. How would we understand the vicissitudes of their actions and feelings?

Though ancient graves have been plowed into fields, the people who lay buried in those ancient graves, the sorrows and joys of their previous lives, their feelings,

their thoughts, and their inspirations have been left behind as black letters on white paper. Their thoughts and feelings live on.

Thus, we know that events were experienced by our forebears and will be experienced by posterity. Though a person may live fewer than 100 years, the cares of 1,000 years are shared present and past. They may be mutually considered in the light of common conditions. The times have undergone tremendous changes and human civilization has advanced by leaps and bounds, yet one point is very strange, and that is that although the people of today may be separated from the ancients by 1,000 years, emotionally, their delight and anger, and their joys and sorrows are not strangers to each other.

They are even very close, as though separated only by a sheet of paper.

Taipei Promotes Aerospace Industry

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[Article by Hsiu Ch'un-p'ing (0208 2504 5493)]

[Text] At present Taiwan is going all out to put its burgeoning aerospace industry into the race. A short while ago a "Development Program for the Aerospace Industry" was examined and passed by the Executive Yuan. Executive Yuan Premier Hao Po-ts'un [6787 2672 2625] publically announced that "the aerospace industry is more than a strategic industry for Taiwan; it also is a key area for future industrial development."

The so-called aerospace industry refers to the technological undertakings of designing and producing such items as commercial aircraft, military aircraft, rocket guided missiles, outer space equipment, etc. The current main development in Taiwan's aerospace industry is the manufacture of aircraft and aircraft parts for civilian use.

The Industry Office of Taiwan's Ministry of Economic Affairs has begun to plan for the development of the aerospace industry. It plans to combine government official and civilian forces who will jointly invest in the Taihsiang Aviation Industry Company. The investment is projected at NT\$10 billion, of which, government official shares will account for 49 percent. The industry office will invite civil enterprises to share in the remaining 51 percent. The project already has been undertaken. It is expected that the Taihsiang Aviation Industry Company will go into operation in April 1991.

Background on Aerospace Industry's Development

For Taiwan, developing the aerospace industry is first of all an economic development need. Since the end of the 1980's, Taiwan's economy has faced increasingly serious difficulties. The island's continuously worsening investment environment, the appreciation of the new Taiwan dollar, tremendous wage inflation, and serious labor shortages all have made Taiwan's labor intensive industries which accounted for rapid economic development lose their former competitive advantage. To extricate itself from the difficulties, Taiwan has begun an economic transformation characterized by industrial upgrading. To attain this goal, the authorities are actively advocating civilian industries develop in the direction of high science and technology. Aerospace represents high science and technology intensive industries. It is the culmination of scientific and technological frontiers. Thus, it has become Taiwan's chosen future industry.

Second, development of the aerospace industry is due to the involvement of the defense industries. Aerospace has been chosen as a guiding industry of the future because it strengthens the defense industries. The Aerospace Development Center of the Sun Yat-sen Institute of

Science and Technology and the Work Research Institute have done research in the field of aviation for more than two decades. They have accumulated a certain amount of experience and technology. Thus, some people in Taiwan believe that Taiwan's defense aviation industries will get a further development boost assisted by civilian forces and investment. Conversely, the fruits of defense research can be used to develop Taiwan's civil aviation industry, thereby promoting the upgrading of the industry overall. According to reports, Yang Shih-chien [2779 0013 4873], director of the industry office of Taiwan's Ministry of Economic Affairs and convener of the aerospace industry group, has said that the Taihsiang Aviation Company will exist first in the civilian market. Its second task will be manufacturing military aircraft for national defense. If the aerospace industry succeeds, it may be a good example for Taiwan's industrial development. In the future, war tanks and defense aerospace manufacturing may follow this model.

Third, the aerospace industry is developing in response to the pressure of international competition. At present, there is a high tide of burgeoning development in the aviation industry in the newly industrialized countries and regions of Asia. The annual output value of South Korea's aviation industry is now \$200 million, and the country announced that it will be an aviation superpower by the year 2000. Singapore also is actively encouraging the development of the aviation industry, annual output value of which is now \$400 million. Exploration and development of the aerospace industry by surrounding countries and regions has made Taiwan anxious to take a seat in this field of the future. This is another reason Taiwan's authorities are going all out to promote development of the aerospace industry.

Taiwan's Chief Means for Developing the Aerospace Industry

Establish an aerospace industry development promotion group. The members of this group include representatives from relevant government units, scholars, and experts. The industry office of Taiwan's Ministry of Economic Affairs will be responsible for coordination work and itemizing needed expenses.

Encourage research and development. The Ministry of Economic Affairs formulated a series of rules to encourage relevant R&D organizations to engage in aerospace research and transfer the fruits of their research to enterprises, providing them with expenses, technology, equipment, manpower, etc.

Use defense science and technology to support development of the aerospace industry. By using expenses, personnel, technology, and equipment, the Ministry of National Defense will assist civilian enterprises develop the aerospace industry and actively encourage them to produce independently aerospace products for defense use.

Strengthen personnel training. The Executive Yuan allocates funds to encourage various academic research

organizations to engage in basic research and personnel training for aerospace industry projects. Technical experts will be trained through employee training centers under the Office of Employee Training. The Ministry of Economic Affairs will itemize accounts to promote on-the-job and pre-job training related to the aerospace industry.

Establish a special aerospace industry zone. The Ministry of Economic Affairs will plan for and select a site. It also will provide the land and facilities.

Establish a system of aerospace industry core and auxiliary factories, and foster spare parts-producing enterprises.

Utilize rewards such as land taxes and other levies. Investors in the aerospace industry who are of a certain size shall enjoy preferential treatment on land taxes and other levies. They will also get low-interest loans from departments concerned. In addition, those who sell aerospace industry products and equipment abroad can apply for corresponding loans.

Taiwan People's Reaction to Authorities' Announcement

Considering present circumstances, the people's reaction to this plan has been rather positive. Many factory owners have expressed great enthusiasm to participate in the aerospace industry's development. The China Steel Company and the China Development Fund have indicated that each is willing to contribute NT\$1 billion; Taitung Co., Ltd., San Yang Industry Co., Ltd., Teco Electric and Machinery Co., Ltd., and other large enterprises also expressed similar desires. There are two reasons for this: One is survival. Because of changes in the economic situation on the island, one primary criteria for an enterprise's survival and fitness is development in the area of high science and technology. The second is profitability. The area is very attractive to civilian enterprises because the authorities encourage its development and offer many favorable circumstances.

Under present circumstances, civilian enterprises hanker more after the spare parts production portion of aerospace industry development. At the same time, they also hope to develop a market for military aircraft and realize "domestic procurement of defense parts." They propose to offer aviation materials and items for defense use.

Given similar quality, they prefer to accept orders and purchase requisitions from factories in Taiwan.

Prospects for Developing Taiwan's Aerospace Industry

The director of the Industry Office of Taiwan's Ministry of Economic Affairs and convener of the aerospace industry group, Yang Shih-chien, has said, "The goal for industrial output value by the year 2000 in the aerospace industry is \$6 billion. After the next decade, Taiwan's aerospace industry will enter the ranks of the world's aerospace industry superpowers."

In the blink of an eye, the aerospace industry has become an important industry fully backed by the Ministry of Economic Affairs. Regarding the industry's future development, unlike civilian industries, officials tend to favor the manufacture of entire aircraft. However, the industries themselves are more partial toward spare parts production. Thus, the future development of the industry may proceed on two legs. That is to say, it will, on the one hand, manufacture aircraft, and on the other, produce spare parts.

Of course, with regard to manufacturing entire aircraft, Taiwan presently faces many difficulties as to technology and sales markets. For example, Taiwan still lacks and has to import from the United States or other developed countries many aviation technologies, particularly some highly sophisticated ones. It will be very difficult for Taiwan to obtain high technology from the developed world today, where it is increasingly clear that the United States, Europe, and Japan block Taiwan and the other "four little dragons" from such sales. With respect to markets, Taiwan's domestic market is limited. It is necessary to enter the international market to develop aircraft for civilian use. It will be anything but easy for Taiwan to share the aviation industry "pie" with the strong aircraft manufacturing firms of the United States, Europe, and Japan.

Considering the future overall for Taiwan's aerospace industry, in the short term, it will be rather difficult for the industry to progress by leaps and bounds with regard to manufacturing aircraft for civilian use due to issues such as technology and markets. Nevertheless, in the next few years, there may be some developments by civilian enterprises, mainly with regard to production of aerospace spare parts.

Officials, Entrepreneurs State Divergent Views on Economy

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[Article by Yang Sen (2799 2773): "Has Taiwan's Economy Already Touched Bottom?—Divergent Views Held by Officials and Entrepreneurs"]

[Text] When has an economy reached its lowest point? This is a question that has been much argued recently and opinions differ between officials and businessmen. How, after all, is an economic recession of this kind constituted? Is it true, as officials assert, that our economy has already reached bottom and is beginning to recover?

According to Kuo Wan-jung [6753 1238 1369] and Li Kao-chao [2621 7559 2600], our economy is already on the way to recovery.

Early in November, Kuo Wan-jung, chairman of the Economic Planning and Development Council [EPDC], stated at the regular meeting of the Executive Yuan that data, as of the end of September, indicate that the economy is showing an upward trend. Later, Li Kao-chao, chief of the Economic Research Department of the EPDC, also stated, when questioned by the press, that we are at present in a time of "recovery without profits." In the middle of November, Wei Tuan [7279 4551], head of the third bureau in the Comptroller's Office, pointed out in an even more widely published article that the lowest point in the present economic recession has already been reached in the third quarter of this year.

However, private business does not seem to agree with these official pronouncements, but on the contrary regard them as efforts to disguise the economic recession, and to be a formulation that tries to dismiss in a perfunctory manner the fact that business is actually in difficulties that threaten its very existence. Investigations among business circles and interviews with them by some public media and research units to find out their views on the state of the economy have also revealed that business firms and industrial circles are indeed much more pessimistic in their views on the economy. Most persons interviewed believe that the lowest point of the recession will be reached after the advent of next year.

Because of the extremely wide-ranging and complex factors involved in economic questions, it is a fact that economic discussion frequently end up in a great variety of different views. It is a joke among economists that discussion of one issue among ten economists will frequently result in eleven different opinions. The fact is, however, that when a question is explored with different points of emphasis or along different avenues, the resulting analysis can, of course, be quite different.

This is why some businessmen criticize that the evaluation of the economic situation by officials and scholars only on the basis of overall data is "not seeing the wood

for the trees" and ignoring the true difficulties that some specific enterprises now have in merely trying to stay alive. That is of course the great problem if one merely relies on statistical material without going deeply into the possibly much larger problems that exist in the economic reality. However, it may still be safer to use statistical data as effective tools to explain the real situation.

In another respect, there are also some people who maintain that "since there has been an investigation, we might as well allow them the right to publish their findings." However, since the respondents to the investigation in question were mostly business firms and industrial entrepreneurs, they were people who, according to the way the capitalist-oriented system of market economy works, respond from out of a "profit motive" and will basically only "speak out" for their own interests. Results of this investigation, to have true reference value, must therefore still be studied and evaluated in relation to the changes that are occurring throughout the entire economic structure. Otherwise, the result of the investigation will express nothing but the interests of merely one stratum of the population.

However, be that as it may, against this background of many differing concepts, what then is the present economic situation? When will it have reached its lowest point? To answer these questions, we must first get to know the causes for the economic recession, only then can we go on to analyze whether the economic recession has already reached its lowest point or whether the economy will continue in recession for some time to come.

According to Wei Tuan's article and according to the views of the Institute of Economics of the Academia Sinica, as expressed in their article "Taiwan's Economic Prospects and Policies," the crest of Taiwan's economic boom was reached around 1987, and that from 1988 and 1989 on the growth rate of Taiwan's economy has gradually declined. In other words, since 1988, Taiwan's economy has been slowly declining, and by spring of this year an economic recession has become more and more evident.

A detailed review of the last few years will disclose that two economic factors have mainly determined developments in Taiwan's economy: First, the continuously increasing amount of money available on Taiwan, an increase which, furthermore, had occurred suddenly and very rapidly. Second, a shift in Taiwan's industrial structure which is becoming more and more evident.

The main reason for the continuously increasing amount of money available on Taiwan is, on the one hand, to be sure, the fact that ever since 1981 private savings by Taiwanese have by far exceeded their investments, resulting in a steep rise in floating capital. More importantly, however, is the fact that in 1986 and 1987 the value of Taiwan's currency began to rise, and that under the policy of the Central Bank to offset Taiwan's

exchange imbalance, the exchange rate was allowed to slowly rise, causing an influx of much capital used for speculation in arbitrage deals, so that the domestic money supply increased by more than 40 or 50 percent.

Money supply thus continued to increase, but the money market on Taiwan, being rather limited in scope, was not able to absorb the excessive amount of floating capital. This is just like the case of a man who does not understand the art of "nei kung," i.e. of special exercises to effectively strengthen the internal organs, and who is suddenly injected with a powerful quantity of "nei li," i.e. internal force. As he will not know how to absorb and eliminate this force, it will in the end, quite naturally, disrupt his regulatory body functions and kill him. Under the onslaught of excessive amounts of floating capital, Taiwan's economy will experience a complete imbalance and a steep rise in its speculative money market.

Values in the share and real estate markets have shot up rapidly. Especially in the stock market, increases from the start of the boom in 1987 to the beginning of 1990 went even beyond the 10-fold mark. Anyone who participated in these activities was unavoidably misled by this mirage of "prosperity" and blinded to the fact that the economy was in effect moving toward a recession. * Whirlwind-Like Rises in the Stock Market Concealed the Economic Recession

In actual fact, Taiwan's industrial structure had begun facing the challenge of a needed shift as from the 1970's on. On the one hand, the cost of each unit of labor gradually rose, and the advantage of cheap labor was gradually lost. On the other hand, the government gradually adopted a policy of liberalizations, so that the labor-intensive export industry, which originally had relied for its existence on protection, experienced a challenge to its very existence by an ever more unrestricted competition. In addition, the government abandoned its policy of holding down the value of the Taiwan currency to induce economic development by expanding exports, and as a result these labor-intensive industries that had been processing materials for export were gradually eliminated.

Some indications show that since the middle of 1988, economic growth began to slow down. First, exports did not maintain their large growth rate, and since the third quarter of 1989, their growth rate continuously declined. Second, the annual growth rate of private investments (formation of private fixed capital) also continuously declined, and early this year even turned into a negative growth rate. Third, an outflow of capital occurred by industrial investments being placed abroad. This outflow increased on a large scale since 1988. All these phenomena, on the one hand, explain that Taiwan's economic structure was beginning to face the need for adjustment in its developmental direction, and it also indicates, viewed from the demand aspect, that the

decline in the growth rate of export and investment demand, naturally, has also slowed down the economic growth rate.

It is interesting, though, that under these conditions of whirlwind-like rises in the stock market, and because of the effect of value increases in "nominal assets," the growth rate of consumption expenditure steadfastly remained at a high level. Moreover, because of the sustained expansion of consumption demand, which partially compensated for the stagnation in the growth rate brought about by the needed shifts in the economy, no sudden slump occurred in the economic growth rate. However, early this year, because of the collapse of share prices, there actually did occur a corresponding sudden decline in the growth rate of consumption demand. Add to it, as another factor, the receding and weak demand in other areas of the economy which had shown up earlier, and the picture of an economic recession becomes immediately fully revealed.

The terrible setback in the Taiwan stock market thus revealed and also accelerated the economic recession. Furthermore, growth rate in the international economy had also declined since the beginning of this year, and this too was unfavorable for Taiwan's exports and even caused Taiwan's growth rate to turn negative; it was indeed one disaster coming on top of another. * The Terrible Setback in the Stock Market Revealed the Truth of Economic Recession

Since these are the facts of economic recession, the next question is, when will the lowest point of the recession have been reached?

Looking at the four lowest points in the cyclical economic recessions of recent years, we see that the real economic growth rates—apart from at the fourth cycle's lowest point (in the first quarter of 1975), when, because of the impact of the energy crisis, the negative growth rate was 4.26 percent—at all the other three times of reaching the lowest points, were 7.30 percent in the third cycle (in the fourth quarter of 1969), 5.31 percent in the fifth cycle (in the first quarter of 1983, and 3.96 percent in the sixth cycle (in the third quarter of 1985).

The economic growth rate in the third quarter of this year, as published a few days ago by the Comptroller's Office, was 4.07 percent, coming close to the growth rate at the lowest point of the sixth economic cycle, which indicates that the economic cycle is possibly already slowly approaching its lowest point. However, this is not at all sufficient to conclude that the cycle has truly reached its lowest point. It would be best to refer also to the other demand-side factors of future possible changes.

Looking at the consumption demand side, we see that the annual increase rate during the third quarter has dropped from the more than 10 percent at the time prior to the beginning of this year to 4.02 percent. This growth rate is lower than the growth rate of private consumption demand during earlier economic slumps. With the economy in a decline and incomes being reduced, people

in general will for the most part have to tighten their belts and will no longer be able to increase consumption at will. More importantly, the serious slump of over 80 percent in the stock market has resulted in eliminating the originally inflated nominal assets, and no one anymore will have the feeling of being "prosperous." The effect that this has had on cutting down consumption was fully felt already within a short time, so that even if consumption demand should drop further, the extent of such a decline would be limited.

Furthermore, looking at the investment side, we see that the Ministry of Finance has decided to adopt a deficit budget, in line with the government's policy of expanded public spending, and this is bound to have the effect of driving up demand in future Taiwan markets. Moreover, the reduction of private investments during the third quarter by 8.42 percent was less, compared with the 13.5 percent negative growth rate in the second quarter, which indicates that although business circles were still pessimistic concerning economic prospects, and will therefore not make large investments in the near future, at least the willingness to invest is not suffering any further sharp setbacks.

Taiwan's Economy May Continue Low Growth

When it comes to exports, this matter also involves the international economic situation, and because the situation in the Middle East is confused and murky, with many unclear risks, there is little chance that exports will recover very quickly. Add to it the fact that the United States, Taiwan's most important export market, is also suffering from the impact of an economic recession, and that this has a tremendous effect on the growth rate of Taiwan's exports. However, since Taiwan's currency is pegged to the U.S. dollar, which in relation to other

currencies has been substantially devaluated, this factor will, to some extent, stimulate exports to other regions.

In an evaluation of the entire economic situation, any continued decline that may possibly occur would be rather limited in extent. According to the forecast of the Institute of Economics of Academia Sinica, the gross growth rate of real domestic production during this year's fourth quarter will be 4.89 percent, and according to the forecast of the Comptroller's Office, the economic growth rate during the fourth quarter will be 4.95 percent. These figures are obviously all higher than the 4.07 percent of the third quarter. In other words, the third quarter of this year could possibly have been the economic low point.

However, regardless whether the economy in the fourth quarter can somewhat recover, according to the mentioned forecasts, at least the possibility of a large-scale decline in the economy has greatly diminished. At present, Taiwan's economy is faced with the need for a structural change. If the export industry cannot quickly shift from labor-intensive to capital- and technology-intensive lines, then Taiwan's economy, being island-bound and with limited domestic demand, thus mainly dependant on exports, will find it even more difficult to regain a high growth rate.

The increases in public expenditure, which the government had announced it is planning from next year on, may temporarily help, through an expansion of domestic demand, to maintain a certain economic growth rate, and may also promote a gradual recovery of the economy. However, if Taiwan does not carry out an effective readjustment of its industrial structure, if no new export markets are opened up, recovery from the prevailing economic recession, if it were achieved, could not be maintained for long, and even the future economy of Taiwan could then only maintain a very low growth rate.

Views on Taiwan's Present Economic Situation and Projection of Its Future Prospects

	Views on Taiwan's Present Economic Situation	Note:
Economic Planning and Development Council:	Kuo Wan-jung: Orders are continuously increasing since July, in September, exports and industrial production regained growth, while indices resumed upward move at the same time, leading indices up for the second consecutive month, the economic situation is somewhat improving. Li Kao-chao: The economic curve has already swung around. The present is a time of "recovery without profits." Economic Countermeasures News, issues of July, August, and September, continuously display yellow-blue light, comprehensive evaluation figures rose slightly from June (blue light) 14 points to 18 points in September. Comprehensive indices for economic lead norms for September show the second consecutive rise and at a larger scale than the rise in August, giving hope for improvement in the domestic economic situation. Comprehensive indices for simultaneous economic norms rose by 0.62 percent compared to August, indicating an economic improvement compared to August.	Extracted from media reports in "Taiwan Economic Indices" up to end of September.
Comptroller's Office:	Wei Tuan: The economic growth rate for the third quarter of this year dropped to 4.07 percent, which is a low point for the present economic cycle. The fourth quarter has more favorable than unfavorable factors and will show a more favorable situation, the economy will also slowly recover and enter a new cycle. According to "Statistical Forecast of National Income," the economic growth rate for this year's third quarter was initially estimated at 4.07 percent, and will be the lowest point for the present economic depression. It is estimated that the economy will gradually improve as from this year's fourth quarter, and for 1991 the economic growth rate is estimated to be 6.14 percent.	Extracted from media reports.

Views on Taiwan's Present Economic Situation and Projection of Its Future Prospects (Continued)

	Views on Taiwan's Present Economic Situation	Note:
Institute of Economics of Academia Sinica:	Taiwan's economic growth rate began to decline in 1988 and 1989; at the beginning of this year, the depression became even more apparent. The GNP growth rate for the first quarter was 6.82 percent higher than during the corresponding period of the previous year. In the second quarter the increase was 5.07 percent; estimates are that increases will be 3.84 percent during the third quarter and 4.89 percent during the fourth quarter. It is estimated that during the first half of next year public investments will be increased on a large scale, and although export growth will be limited, exports will maintain a medium-growth rate; their increases next year are estimated to be 5.63 percent during the first quarter and 5.56 percent during the second quarter.	Extracted from "Taiwan Economic Prospects and Policies," published by the Institute of Economics of Academia Sinica. Data up to the second quarter.
Taiwan Economic Research Institute	During August, economic condition of the manufacturing industry will continue to slowly decline. It has been assessed that "good" firms will increase from the 11.8 percent in July to 12 percent, "common" firms 50 percent, and "bad" firms 38 percent. Views on the economy during the coming half year: those who believe the development will continue toward a flourishing state of the economy were down from 10.7 percent in July to 8.9 percent. Then there are 50.5 percent who believe the economy will maintain its present level, and 40.6 percent who believe the economy will decline. Combining the test points on business climate, as per preceding two paragraphs, there was a continuous decline in the lead norms during the six months since March, indicating continuous difficulties in the domestic economic condition. The lowest point of the economy may possibly be reached in this year's fourth quarter or in next year's first quarter.	Extracted from "Taiwan Economic Monthly," Vol 13, No 10.
Investigation Report of the "Industrial and Commercial Times":	Result of an investigation of the "Industrial and Commercial Times" among main manufacturing industries, department stores, and in the restaurant and hotel industry. Firms that considered the economy deteriorated in September: 35.12 percent; those who believed there was no change: 38.13 percent; and only 26.75 percent believed that the economy turned more favorable. Those who believe the economy will have turned worse by December: 35.33 percent, it will maintain its present level: 35.98 percent; those who hope it may turn better 28.7 percent. Most firms are pessimistic in their views on the present economy and are also not optimistic as to the economy in three months from now, but showed optimism at every level in comparison with the situation in August.	Extracted from the "Industrial and Commercial Times" of 29 October 1990.
Gallop Poll by the "Commercial Weekly":	Result of a public opinion poll among 1,029 enterprise managers by the Gallup Company, commissioned by the "Commercial Weekly." Those who believe the depression will last for another 6 months: 16.3 percent; will last for one more year: 33.4 percent; will last for two more years: 21.2 percent; will last for 3 years or more: 10.8 percent. Those who believe the bottom of the depression has now been reached: 14.2 percent; will occur early next year: 21.7 percent; will occur in the middle of next year or thereafter: 43.3 percent.	Extracted from the "Commercial Weekly" of 11 November.

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